

**CORPORATE GOVERNANCE FACTORS AND THEIR
IMPACT ON THE PROFITABILITY OF COMMERCIAL
BANKS IN NEPAL**

A THESIS

Submitted By

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RECOMMENDATION

This is to certify that the thesis:

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

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I hereby declare that the work reported in this thesis entitled, *Corporate Governance Factors and their Impact on the Profitability of Commercial banks in Nepal* submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of requirement for the Master's Degree in Business Studies (M.B.S) under the supervision, Asso. Prof. Dr. Kapil Khanal of Shanker Dev Campus.

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ABBREVIATION

C.V.	:	Coefficient of Variance
DFL	:	Degree of Financial Leverage
DPS	:	Dividend Per Share
EBIT	:	Earning Before Interest and Tax
EBL	:	Everest Bank Limited
EBT	:	Earning Before Tax
EPS	:	Earning Per Share
F.Y.	:	Fiscal Year
i.e.	:	Example
Kd	:	Cost of Debt
Ke	:	Cost of Equity
LSBL	:	Laxmi Sunrise Bank Limited
LTD	:	Long Term Debt
MBL	:	Machhapuchre Bank Limited
MBL	:	Machhapuchre Bank Limited
NABIL	:	Nabil Bank Limited
NI	:	Net Income
NOI	:	Net Operating Income
P.E.	:	Probable Error
r	:	Correlation Coefficient
ROSE	:	Return on Shareholders' Equity
S.D.	:	Standard Deviation
tcal	:	Calculated value of t
ttab	:	Tabulated value of t

CHAPTER-I

INTRODUCTION

1.1 Background of the study

Nepalese enterprises must synchronize with worldwide patterns and function systematically, integrating efficient corporate systems. Sound corporate governance principles are paramount, particularly as firms expand. While the Companies Act establishes the basic corporate structure, Nepal's corporate realm must emphasize and advance superior governance standards. Vital components such as discipline, transparency, autonomy, responsibility, equity, and societal commitment are indispensable.

Augmenting the market appeal of products and services, refining leadership, and showcasing transparency and societal responsibility are equally crucial. Despite enduring political instability and inconsistent governance, the private sector has significantly contributed to Nepal's progress across various sectors. Grassroots initiatives in education, media, industry, tourism, and banking have played a pivotal role in fostering the country's development. This research seeks to examine the governance landscape within corporate entities, with a specific focus on the banking industry. Given their role as custodians of public funds, banks must maintain rigorous discipline throughout their governance structure, encompassing the board, management, and staff, to uphold customer trust and safeguard deposits. Effective communication and collaboration among stakeholders are paramount. Bank personnel should exhibit strong moral values and be accountable to clients, the institution, and the nation. Those involved in financial matters must prioritize confidentiality, integrity, and discipline consistently.

Nepal is grappling with chaos and instability, particularly evident in government bodies teetering on the edge of collapse due to ineffective governance and excessive politicization. Despite various training initiatives and support from donors, the adoption of good governance practices within government institutions remains elusive. Conversely, privately-run establishments like schools, banks, hospitals, and industries have shown better operational stability. Nevertheless, these entities encounter challenges

in fully embracing the fundamental tenets of corporate governance, contributing to a notable communication gap between boards and management and resulting in suboptimal governance standards.

This study focuses on the governance practices within banks in Nepal, with a specific emphasis on A Class Commercial Banks. Nepal Rastra Bank classifies banks and financial institutions into five categories, ranging from commercial banks to microfinance development banks and cooperatives. Despite the abundance of financial institutions relative to the economy's size, grassroots initiatives in sectors such as tourism, education, and media have played a role in fostering the sustainable growth of these institutions. Against this backdrop, the research aims to evaluate the efficacy of corporate governance, particularly within the A Class Commercial Banks in Nepal.

Corporate governance revolves around the manner in which an organization is managed and directed. Effective corporate governance involves maintaining professionalism in both governance and management, with a strong focus on upholding integrity and ethical business practices. Furthermore, the competence and caliber of the individuals entrusted with leading the organization play a pivotal role in its prosperity. It encompasses striking a balance between economic and social objectives, as well as individual and collective aims. The governance structure aims to facilitate optimal utilization of resources while ensuring accountability for stewardship. Ultimately, its objective is to align the interests of individuals, corporations, and society at large.

Corporate governance pertains to the interconnected relationships among shareholders, the board of directors, and senior management, governing the corporation's objectives. Apart from shareholders, management, and the board, additional stakeholders encompass employees, suppliers, customers, lenders, regulators, the environment, and the broader community.

Ruin (2001) defines corporate governance as a collective body responsible for directing, overseeing, and managing a company with authority. Within this framework, corporate governance ensures directors' accountability to shareholders, akin to a government being answerable to its citizens. Conversely, Low (2003) describes corporate governance as the mechanisms through which stakeholders exert influence over corporate insiders and

management to protect their interests. It encompasses a range of processes, traditions, policies, laws, and institutions shaping the direction, administration, or control of a corporation.

According to Cadbury (1992), corporate governance is a framework for directing and managing companies, consisting of two elements: "corporate," which pertains to corporations, and "governance," which refers to the manner of governing. The primary objective is to enhance long-term shareholder value while considering the interests of other stakeholders.

Agency theory, as elucidated by Jensen and Meckling (1976), explains the genesis of conflicts and strategies to mitigate them within contractual relationships. In the context of a firm, conflicts emerge between owners (principals) and managers (agents) due to conflicting interests. Managers may prioritize their own interests, leading to what Jensen and Meckling term as agency or conflict costs. These costs represent the loss incurred by principals due to conflicts between managers and owners.

Agency theory suggests that corporate governance mechanisms arise from conflicts between various parties within a company, including managers, shareholders, and other resource providers, arising from divergent interests and incentives (Beasley, 1996). To address such conflicts, effective corporate governance structures must be established.

Jensen (1994) classifies corporate governance into four primary types: legal and regulatory mechanisms, internal control mechanisms, external control mechanisms, and product market competition. This study concentrates on internal control mechanisms as they are under the company's jurisdiction and can vary across different firms. The internal governance framework of a company encompasses functions and processes established to oversee and influence management actions (Davidson, Goodwin & Kent, 2005).

Corporate governance delineates the framework for power allocation within corporate entities, specifying the distribution of rights and obligations among participants such as the board, managers, shareholders, and stakeholders. It delineates the rules and procedures for decision-making on corporate matters and sets objectives for the company, monitoring performance accordingly.

Enhancing corporate governance in emerging market nations can serve several crucial public policy goals. Effective governance helps to mitigate vulnerability to financial crises, reinforces property rights, decreases transaction costs and capital expenses, and stimulates the development of capital markets. Conversely, weak governance structures undermine investor confidence and may deter external investments.

In recent times, corporate governance has gained heightened attention due to prominent scandals involving the misuse of corporate authority and alleged criminal behavior by corporate executives. An essential element of effective governance involves provisions for civil or criminal prosecution of individuals involved in unethical or illegal activities on behalf of the organization.

Implementing sound corporate governance practices can effectively manage and diminish the likelihood of defaults while ensuring strong performance and preserving high firm value. Default risks may stem from factors such as excessive leverage, inadequate financial performance, and insufficient internal control measures. Through vigilant oversight, robust corporate governance can mitigate these risks. Consequently, establishing comprehensive corporate governance policies yields numerous advantages across various management tiers, including preventing managerial misconduct, enhancing firm values, generating value for shareholders, and reducing investment and financial risks.

1.2 Statement of the problem

Corporate governance and its influence on performance have gained increasing importance in today's business environment. This heightened significance arises from widespread instances of mismanagement, lack of corporate ethics, and professionalism, particularly prevalent in organizations situated in third-world contexts like ours. Inadequate corporate governance often results in organizational failures, underscoring the necessity for all aspiring organizations to prioritize and adopt sound corporate governance practices.

Corporate governance mechanisms are closely intertwined with economic and legal institutions, which can be reformed through the political process to yield improved outcomes. While some may argue against governance reform, contending that market

competition will naturally drive firms to minimize costs, it's essential to acknowledge that implementing rules, including corporate governance mechanisms, ultimately enables corporations to access external capital at the lowest possible cost.

Numerous challenges associated with corporate governance have been extensively documented. These issues can lead managers to engage in behaviors such as shirking and expropriation of minority shareholders and creditors, prioritizing short-term gains over long-term sustainability (Deangel et al., 1983).

Evidence from economic crises in East Asia and other regions highlights how macroeconomic challenges can be worsened by systemic deficiencies in corporate governance. Weak regulatory frameworks, inconsistent accounting and auditing standards, subpar banking practices, underdeveloped capital markets, inadequate oversight by corporate boards, and insufficient protection of minority shareholders' rights all contribute to these crises (Chomlou, 2000).

In certain nations, the repercussions have disproportionately affected the less affluent, resulting in setbacks concerning banking services, social welfare, and economic advancements, often enduring across generations. Recognizing the crucial role of effective corporate governance in achieving competitive advantage and overall economic and social advancement, many countries have prioritized evaluating the existing corporate governance practices within their entities.

Corporate governance holds particular importance for financial institutions due to their direct management of public funds and service provision to customers. Instances of financial irregularities in Banks and Financial Institutions (BFIs) frequently stem from governance shortcomings and management deficiencies. Challenges such as a shortage of skilled personnel and widespread nepotism exacerbate these issues, impeding governance and hindering BFI progression. Overcoming these obstacles to maintain good governance and professionalism in banks presents a significant contemporary challenge.

The recent difficulties faced by certain BFIs, including liquidation by Nepal Rastra Bank, underscore the repercussions of weak governance. The liquidation of Nepal Bikas Bank serves as a notable illustration, with additional institutions facing similar outcomes, posing a substantial threat to the nation's financial stability. Identifying the underlying

causes behind problematic BFIs is essential. Hence, this study formulates the following research questions to examine the governance of these banks, identify crucial elements of good governance, and propose measures for enhancement.

- i) What are issues related to corporate governance and performance of private sectors Nepalese commercial banks?
- ii) What are the primary elements of corporate governance and performance challenges within the private banking sector in Nepal?
- iii) Is there a correlation between effective corporate governance and performance, particularly regarding the profitability of banks?
- iv) What are the key factors influencing corporate governance and performance within the private banking sector in Nepal?
- v) What is the relationship between corporate governance and Financial Performance of private sector Banks in Nepal?

1.3 Objective of the study

The primary objective of the study is to examine the relationship between corporate governance practices and performance within the private sector of Nepalese commercial banks. The specific objectives are as follows:

- i. To analyze the issues related to corporate governance and performance of private sectors Nepalese commercial banks.
- ii. To find out the most important components of corporate governance and performance issues in Nepalese private banking sectors.
- iii. To explore the potential correlation between sound corporate governance practices and the performance, specifically profitability, of the sampled banks.
- iv. To explore the most important factors of corporate governance and performance in Nepalese private banking sector.
- v. To evaluate the relationship between corporate governance and Financial Performance of private sector Banks in Nepal.
- vi. To examine the effectiveness of directives and guidelines implementation in relation to ensuring corporate good governance.

1.4 Limitation of the study

This study holds significant importance, yet it is subject to several limitations. Firstly, it relies solely on primary data, and the sample size used is relatively small. The primary data obtained from several experts were gathered using convenient sampling techniques. A significant limitation is the dependency on viewpoints of experts spanning various sectors, and the conclusions drawn from the opinion survey might not fully encapsulate the entirety of the Nepalese banking industry. Although the data are restricted to the feedback collected from the participants, they might not offer a complete perspective of the sector overall.

1.5 Significance of the study

Corporate governance is crucial for two primary reasons: bolstering financial performance and establishing effective monitoring mechanisms. This study aims to assess the current status and practices of corporate governance in Nepal, offering valuable insights for researchers, academics, and practitioners. The findings serve as a practical guide for all stakeholders engaged in Nepal's corporate governance framework. As a scholarly research endeavor, this study delves into corporate governance practices within the Nepalese context, with the outcomes potentially aiding organizations in enhancing their effectiveness and efficiency through improved corporate governance and performance.

1.6 Organization of the study

The current study is organized into five main chapters, each addressing distinct facets of corporate governance and performance practices within Nepalese private sector commercial banks.

Chapter I serve as the introduction, delineating the major issues to be explored and outlining the study's objectives while providing a comprehensive background.

Chapter II delves into the conceptual framework and reviews pertinent empirical studies. Through an examination of the conceptual framework and an overview of existing literature, this chapter establishes a robust basis for subsequent discussions.

Chapter III elaborates on the research methodology adopted in the study, encompassing elements such as research design, data sources, and the selection criteria for organizations, particularly Nepalese financial institutions.

Chapter IV is devoted to the presentation and analysis of primary data, presenting both quantitative and qualitative insights into corporate governance practices in Nepal.

Chapter V encapsulates the summary, recommendations, and conclusions derived from the study, along with proposing avenues for future research. The bibliography and questionnaire are appended at the conclusion of the study for reference purposes.

CHAPTER-II

LITERATURE REVIEW

The review of literature serves as a comprehensive compilation of research conducted by esteemed scholars and researchers on a particular topic. It involves describing, summarizing, evaluating, and elucidating the existing literature, thereby providing a theoretical foundation for the research and aiding in determining its nature. By critically reviewing the literature, researchers gain a thorough understanding and insight into previous studies related to the present topic, which helps in assessing the current status of the research field (Wolf & Panta, 2005).

This process allows researchers to identify gaps in existing knowledge and determine areas requiring further investigation. Additionally, the literature review aids in developing a comprehensive theoretical framework from which hypotheses can be formulated and tested. Generally, literature is reviewed using two approaches for research purposes.

- i. Review of related to concept
- ii. Review of related to previous studies

2.1 Conceptual Review

Corporate governance refers to the framework encompassing regulations, interactions, structures, and procedures governing the exercise and oversight of authority within corporations. It encompasses the mechanisms responsible for ensuring accountability of companies and their leaders. Corporate governance is commonly understood as both the organizational structure and the connections that influence corporate strategy and outcomes. At the core of corporate governance lies the board of directors, whose interactions with other crucial participants such as shareholders and management are fundamental. Furthermore, other stakeholders include employees, customers, suppliers, and creditors.

Corporate governance is generally perceived as a system that guides the direction and oversight of organizations, with a focus on the procedures through which a company's board, shareholders, and stakeholders execute their duties and obligations. It serves to

ensure accountability and improve performance, thereby enhancing a company's competitive edge. Due to its perceived importance for the economic well-being of corporations and society, corporate governance has attracted significant public attention. The diverse definitions provided by experts reflect their individual interests in the domain.

2.1.1 Corporate Governance

According to Khatiwada (2002), the core premise of corporation law is that a business corporation should strive to enhance its profits and the gains of its owners, the shareholders.

Mertzanis (2001) defines corporate governance as a field within economics that examines methods to ensure efficient management of corporations through incentive mechanisms like contracts, organizational designs, and legislations. This primarily focuses on improving financial performance by motivating corporate managers to deliver a competitive rate of return.

Murphy (1985) describes a corporation as an artificial entity, existing solely in the contemplation of the law, possessing attributes such as immortality and individuality, enabling it to function as a single entity. Corporate governance, according to this perspective, concerns how financiers ensure returns on their investments in corporations.

The American Heritage Dictionary and Black's Law Dictionary define a corporation as a distinct legal entity separate from its members. The OECD (1999) defines corporate governance as the system by which business corporations are directed and controlled, outlining the distribution of rights and responsibilities among participants such as the board, managers, shareholders, and stakeholders.

Wolfensohn (1999) emphasizes that corporate governance revolves around fairness, transparency, and accountability. Maw et al. (1994) argue against a narrow conception of corporate governance, asserting that it encompasses the duties of directors and auditors towards shareholders, employees, customers, bankers, and the reputation of the nation's economy.

Governance mechanisms are typically classified into internal and external corporate. Internal governance pertains to the interaction between management and shareholders, encompassing aspects like board composition, roles, and duties. On the other hand, external governance involves the company's associations with external stakeholders like creditors and regulatory authorities. It reinforces internal governance by scrutinizing the effectiveness of a company's investments.

Principle of corporate governance

The principles act as a fundamental framework essential for promoting effective governance practices. They represent a mode of self-regulation designed to be easily understandable and succinct. The OECD has delineated essential components of corporate governance, highlighting that the principal objective of regulation is to establish a governance landscape in harmony with societal values. This environment should enable competition and market dynamics to function efficiently, thus aiding corporations in attaining sustained economic prosperity over the long term. Several of the OECD principles are expounded upon below:

Rights of shareholders

The corporate governance structure must protect and facilitate the utilization of shareholders' rights. This can be accomplished by guaranteeing transparent and readily available dissemination of information and by encouraging shareholder participation in general meetings. Essential shareholder rights include:

- i. Ensuring secure methods for registering ownership.
- ii. Facilitating the conveyance or transfer of shares.
- iii. Providing timely and regular access to relevant information about the corporation.
- iv. Allowing participation and voting in general shareholder meetings.
- v. Granting the right to elect members of the board.
- vi. Entitling shareholders to a share in the corporation's profits.

The equitable treatment to share

The corporate governance structure should ensure equitable treatment for every shareholder, regardless of whether they hold a minority stake or are foreign investors. It should provide all shareholders with equal opportunities to seek appropriate remedies in instances where their rights are violated.

The role of stakeholders in corporate governance

The framework should recognize the rights of stakeholders as outlined by law or mutual agreements, promoting cooperative interaction between corporations and stakeholders in generating wealth, creating employment opportunities, and ensuring the financial viability of enterprises.

Disclosure and transparency

The corporate governance structure should ensure prompt and precise disclosure of all significant matters pertaining to the corporation, including its financial condition, performance, ownership composition, and governance procedures.

The responsibilities of the board

The corporate governance framework should oversee the strategic direction of the company, ensure effective oversight and management by the board, and hold the board accountable to both the company and its shareholders.

Ensuring the basis for an effective corporate governance framework

The corporate governance framework should foster transparent and efficient markets while adhering to the rule of law and clearly delineating responsibilities among various supervisory, regulatory, and enforcement authorities.

To ensure the effectiveness of the corporate governance framework, it is essential to establish a robust legal, regulatory, and institutional foundation that all market participants can rely on when establishing their private contractual relationships. This framework typically includes elements such as legislation, regulation, self-regulatory mechanisms, and voluntary standards. The specifics of this framework may vary from

one country to another, adapting to new experiences and changing business conditions as needed.

Importance of corporate governance

Governance has been a fundamental concern throughout human history, addressing the challenge of ensuring that organizational power is directed towards agreed-upon purposes. In the context of corporate entities, governance structures define the distribution of rights and responsibilities among various participants, such as the board, managers, shareholders, and stakeholders. These structures establish rules and procedures for decision-making, objective-setting, and performance monitoring.

The importance of corporate governance extends beyond business success to encompass broader economic and social well-being. Strong governance standards facilitate access to capital and contribute to economic growth. Moreover, they promote fairness, transparency, accountability, and responsibility to both shareholders and stakeholders. Effective governance requires not only internal mechanisms but also a supportive institutional environment, including secure property rights, a functioning judiciary, and a free press.

A well-designed corporate governance system enhances shareholder value within legal and contractual boundaries while promoting socially efficient resource allocation. It attracts investor confidence, builds market trust, and enhances corporate competitiveness. Corporate governance guidelines emphasize accountability, performance improvement, and alignment of interests among owners, management, and stakeholders. They aim to increase transparency, fairness, and executive accountability to shareholders, while safeguarding the interests of the organization as a whole.

Corporate governance is a critical concern in industrial economies, addressing internal organization, power structures, ownership patterns, and relationships among management, board, shareholders, and stakeholders. It encompasses monitoring mechanisms, shareholder activism, accountability, fiduciary duty, and economic efficiency. Additionally, it acknowledges the interests of stakeholders beyond shareholders, such as employees and the environment.

In Germany, corporate governance is characterized by a two-tier board of directors system. The management board is responsible for the day-to-day operations of the enterprise, serving the interests of various stakeholders. On the other hand, the supervisory board, whose members are elected by shareholders at the annual meeting, comprises non-management individuals. This board appoints, supervises, and advises the management board on policy matters, without involvement in day-to-day management. Legally, the supervisory board monitors the competence of the management board, while practically; it offers advice on major policy decisions.

Corporate governance, as per its definition, is overseen by the board of directors, elected to represent shareholders. The board ensures that management is fully accountable to shareholders by providing accurate and reliable information. It also formulates strategy and oversees its implementation. Additionally, there exists a board of corporate auditors, tasked with auditing management's execution of business activities. Directors have the authority to govern the company, supervise managers, and promote effective management while ensuring accountability to shareholders.

The major elements of corporate governance

Every corporation, regardless of its size, must have a board of directors elected by its shareholders, while the management team handles the company's day-to-day operations. The board of directors represents the interests of the shareholders by overseeing the management of the corporation. Acting as representatives of the owners, the board has the authority to make significant decisions such as replacing the CEO, approving or rejecting takeover offers, determining executive compensation, selecting independent auditors, and addressing other key issues. There are no strict guidelines regarding the size, structure, or term of office of a board of directors. Boards typically consist of 5 to 15 or more directors, who may establish committees to oversee specific areas of responsibility, including nominating, audit, and compensation committees. Some corporations also have governance committees to ensure effective oversight of corporate governance practices.

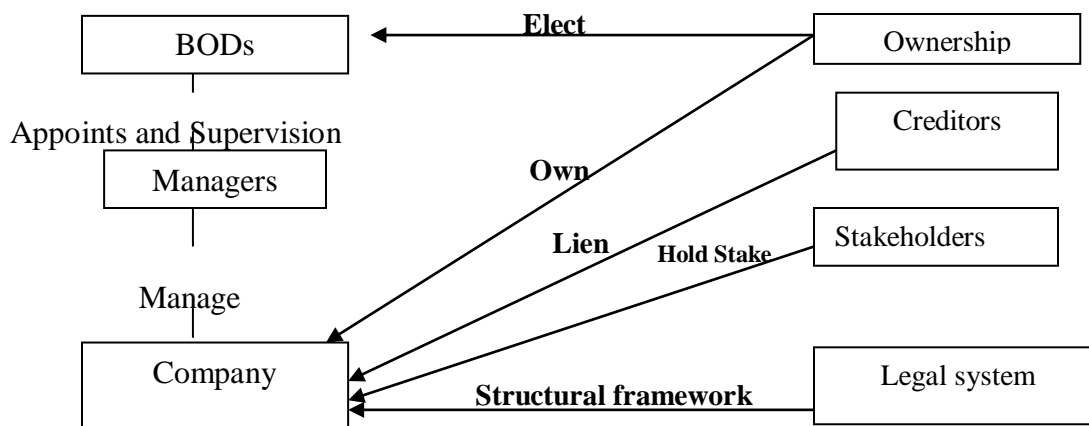
The audit committee focuses on the company's financial health, internal controls, and interactions with independent auditors. The nominating committee handles matters

related to management succession and board composition. The compensation committee oversees executive and director compensation. Additionally, some boards establish a governance committee to evaluate both management and the board's performance. In some cases, the nominating committee may expand its role to function as a governance committee. Boards typically perform a range of functions to ensure effective corporate governance.

There is also requiring each director to hold a significant amount of company stock, limiting the number of inside directors to two or three, requiring directors to retire at the age of 70, subjecting the entire board to election annually. In the same way, imposing limits on the number of outside boards on which directors can serve, ensuring that the audit, compensation, and nominating committees are composed entirely of independent directors and prohibiting directors from receiving consulting, legal, or other fees directly or indirectly from the company. Interlocking directorships, where directors sit on each other's boards, are also common in some cases. The board of directors plays a central role in corporate governance, as

Fig: 2.1

System of Corporate Governance and the Board of the Directors



Source: Raju (1998)

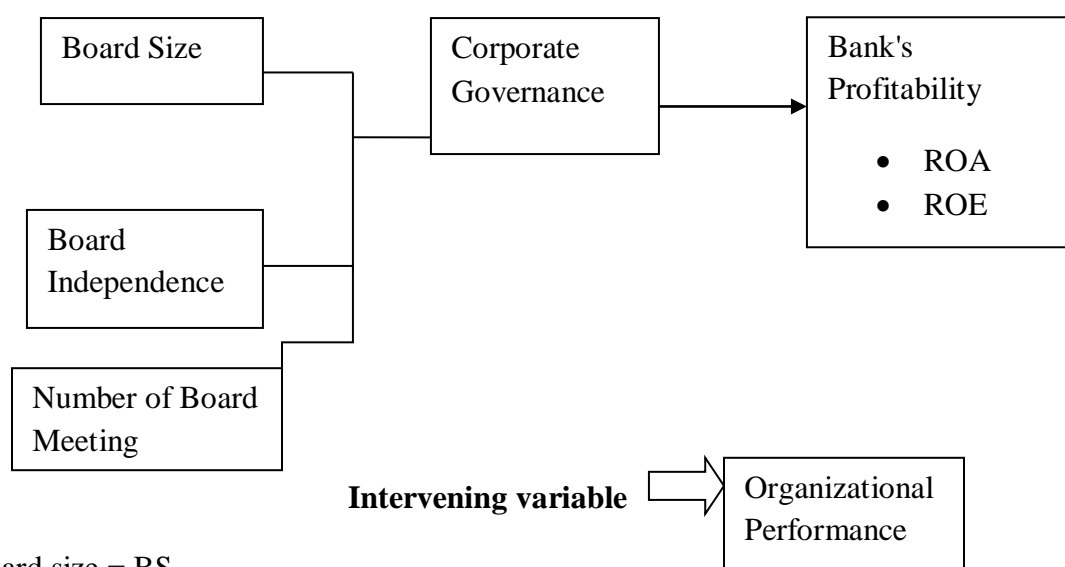
In the proposed model, the corporate structure comprises a Board of Directors (BOD) elected by shareholders or owners, serving as supervisors. The board carries out three primary functions: representation, direction, and oversight. It appoints and supervises managers who are tasked with managing the company's day-to-day operations. This

model underscores the board's accountability to stakeholders and emphasizes its role in setting policies executed by management. Oversight of policy implementation is facilitated through a well-structured information system. The Board of Directors, accountable to the shareholders who elect them, is responsible for delivering specific returns within the market's established framework.

Corporate governance variables

There exists a correlation between corporate governance and a firm's profitability, as governance mechanisms can influence profitability.

Theoretical Framework



Board size = BS

NED = number of executive director,

NID = number of independent director

NOM = number of BOD meeting in last five fiscal year

Board of directors/Size

Large-sized boards may encounter communication challenges, potentially leading to adverse effects on firm performance, as evidenced by studies conducted by Yermack (1996), Eisenberg et al. (1998), and Singh and Davidson (2003). Research suggests an inverse correlation between board size and firm performance. Effective boards play a crucial role in a company's success, acting as intermediaries between managers and

investors, as noted by Lipton and Lorch (1992) and Jensen (1993). A smaller board tends to assume greater responsibility for monitoring a company's operations compared to a larger one, as indicated by Vaefas (2000). Thus, the study hypothesizes:

H1: There is a significant relationship between board size and the profitability of banks.

Board independence

The relationship between board independence and firm performance suggests that independent outside directors with professional expertise may offer more objective decision-making and managerial oversight. Studies conducted by Weisbach (1988), Rosenstein and Wyatt (1997), and Huson et al. (2001) support the idea that a higher proportion of independent directors on boards correlates with better firm performance. Conversely, a higher presence of executive directors, lacking in professional expertise, may result in less objective decision-making and managerial oversight. Non-executive directors play a crucial role as effective monitors, thereby enhancing firm profitability and management discipline (Duchin et al., 2010; Weisbach, 1988; Fama and Jensen, 1983). Anandarajah (2004) suggests that non-executive directors contribute to the diversity of skills and knowledge among board members, while Awan (2012) indicates that non-executive directors positively impact firm performance, as assessed by return on assets (ROA) and return on equity (ROE). Thus, the study proposes the following hypothesis:

H2: There is a significant relationship between board independence and the profitability of banks.

Number of board meetings

It is hypothesized that regular board meetings positively influence bank performance. Increased frequency of board meetings facilitates more in-depth discussions on business issues and prospects, leading to improved operational efficiency. Accordingly, this study posits the following hypothesis:

H3: The number of board meetings is positively associated with bank performance (profitability of banks).

Dependent and Independent variables

The independent variable in this study is corporate governance, which comprises three measures or components: board size, board independence, and the number of board meetings. The dependent variable is profitability, which is assessed using two components: return on assets (ROA) and return on equity (ROE). Additionally, non-performing loans are also taken into account as a factor affecting bank profitability in the context of good corporate governance.

Disclosure

Corporate governance can be defined as a set of principles governing the operations of companies and how these principles are communicated externally. The corporate governance framework can be seen as an institutional effort to facilitate structured communication between companies and their shareholders and stakeholders, aiming to elucidate the company's strategic and operational objectives, including the critical success factors for achieving them. The purpose of codes is to prompt boards to elucidate their methods of directing and overseeing their operations. Disclosure serves as an opportunity for companies to outline their business objectives and principles, thereby enhancing their accountability. Disclosure standards refer to the provision of reliable information to users, especially shareholders and other interested investors, to comprehend the performance of companies affecting the capital market through primary and secondary market activities. Corporate information disclosure entails the complete, accurate, timely, and transparent release of financial and non-financial information to shareholders and stakeholders, aiming to enhance their engagement and safeguard their interests. While a robust corporate governance structure is a prerequisite for satisfactory information disclosure, rules and governance structures alone are insufficient to address the issue. Many public companies have established boards of directors (BODs), introduced outside directors, formed special committees, and devised their own governance rules, along with information disclosure practices to meet regulatory requirements. The disclosure should exhibit qualities that fulfill users' needs, including relevance, materiality, understandability, comparability, consistency, reliability, and freedom from bias. Therefore, a sophisticated mechanism for information disclosure is crucial for effective

corporate governance. Information disclosure is valuable for economic decision-making by shareholders, lenders, employees, bankers, government, customers, and the general public. The disclosed statements should be comprehensive, fair, and contain all relevant information, both quantitative and qualitative, meeting stakeholders' expectations and statutory requirements, such as reports, seminars, prospectuses, and chairman's statements.

Annual General Meeting

Every organization must conduct its annual general meeting (AGM) each year, a regular function and duty that marks a milestone for the organization's success. AGMs are influenced by various stakeholders, including the government, shareholders, investors, employees, and other concerned groups. The government and other stakeholders assess the organization's performance, policies, financial data, and other functions presented during the AGM to gauge its market standing. The government can regulate companies through AGMs by introducing new policies, goals, strategies, and future plans. AGMs play a crucial role in obtaining government approval for the company's operations. Published data from AGMs helps stakeholders make decisions regarding investment, loans, and services. The main objectives of AGMs include publishing annual transactions and work performance, setting new policies, determining goals and strategies, evaluating the market and competitors, selecting new operational committees, sharing performance with partners, and planning dividend policies, bonuses, and capital increments. AGMs promote transparency in the company's annual operations and hold significant power within the organization. Only partners with the right to participate in AGMs are involved, while others may attend as guests. Government representatives often attend AGMs to assist in regulation and guide transparent decision-making. Companies should provide accurate information to government representatives and seek their advice during AGMs.

AGM in the Nepalese context

In Nepal, the government emphasizes good governance to regulate companies' activities and create a conducive market environment. The Securities Board of Nepal (SEBON) plays a pivotal role in evaluating, guiding, and regulating companies. SEBON assesses companies' market standing and ensures compliance with regulations. However, only

around fifty percent of Nepalese companies hold their AGMs on time, indicating poor adherence to good governance principles and government guidance. This highlights the need for stronger enforcement and support from regulatory bodies to enhance corporate governance practices among Nepalese companies.

Organizational Performance

In the realm of organizational performance, several interconnected disciplines shed light on its intricacies. Firstly, organizational culture research delves into the intangible aspects such as values, behaviors, and attitudes that underpin and perpetuate processes and decision-making within an organization. Complementing this, leadership studies examine how different leadership.

2.2 Review of Related Studies

Jawaharlal (1985) underscored the paramount importance of a sophisticated information disclosure mechanism in contemporary corporate governance. According to him, information disclosure plays a crucial role in aiding economic decision-making for various stakeholders such as shareholders, lenders, employees, bankers, government, customers, and the general public. He emphasized that disclosed statements should be comprehensive, fair, and provide all relevant information necessary for stakeholders to make informed decisions. Jawaharlal also stressed the need for certain qualities in disclosure, including relevance, materiality, understandability, comparability, consistency, reliability, and freedom from bias, to effectively meet the needs of users.

Hermalin and Weisbach (1988) investigated determinants of board composition in companies listed on the New York Stock Exchange (NYSE). Their findings revealed that underperforming firms tended to replace insiders with outsiders on their boards, possibly in response to shareholders' dissatisfaction with the current board's monitoring.

Cadbury (1992) advocated for the establishment of key board committees in corporate governance, including audit, remuneration, and nomination committees. These committees should comprise non-executive directors responsible for ensuring transparency and accountability in board decision-making. Cadbury also emphasized the

importance of having a balanced board with a significant presence of independent non-executive directors to prevent individual dominance.

Blair (1995) argued that corporate governance encompasses various legal, cultural, and institutional arrangements that dictate the actions, control, and risk allocation of publicly traded corporations. Consequently, regulatory changes often target board structures and functions.

Agrawal and Knoeber (1996) found correlations between firm performance and insider shareholdings, outside directors, debt levels, and corporate control activities in separate regression analyses.

Weimer and Pape (1999) proposed taxonomy of corporate governance systems based on eight characteristics, including the prevailing concept of the firm, board structure, stakeholder influence, stock market importance, external control market presence, ownership structure, executive compensation dependence on performance, and economic relationship time horizon.

Koladkiewiz (2000) suggested that the supervisory board played a crucial role in developing the infrastructure for the capital market. While institutions like the Securities and Exchange Commission and the stock market filled important roles, the supervisory board's support function was still evolving.

Johnson, Breach, and Friedman (2000) presented evidence linking weak legal institutions for corporate governance to the extent of depreciations and stock market declines during the Asian crisis. They found that corporate governance variables had better explanatory power for the crisis than macroeconomic factors.

Mertzanis (2001) delved into corporate governance practices in the Greek business community, emphasizing the rationale behind adopting best corporate practices and recommending detailed reforms in corporate legal frameworks.

Heracleous (2001) examined the relationship between CEO/chair duality and insider/outsider composition with organizational performance, finding this relationship to be inconsequential.

Schilling (2001) investigated the German corporate governance model, highlighting the traditional supervisory board's consensus-oriented approach, which historically functioned well in times of long innovation cycles and separate national markets.

Parker et al. (2002) explored the association between various corporate governance attributes and the likelihood of survival for distressed firms, discovering that replacing CEOs with outsiders increased the likelihood of firm survival, while higher levels of block holder and insider ownership positively influenced survival.

Hussain and Mallin (2002) analyzed the state of corporate governance in Bahrain, finding that while Bahraini companies had some corporate governance best practices in place, further progress was needed.

Gompers, Ishii, and Metrick (2003) constructed a Governance Index based on 24 governance mechanisms, revealing that firms with stronger shareholder rights experienced higher firm value, profits, and sales growth.

Montagon (2004) explored the heightened investor interest in corporate governance, particularly in the UK context, suggesting that observing well-governed companies could be a wise investment strategy.

Parum (2004) described corporate governance frameworks as attempts to facilitate structured dialogue between companies and their shareholders, focusing on understanding companies' strategic goals and critical success factors.

Keenan (2004) outlined the key tasks of boards, including determining business strategy, appointing senior management, and ensuring adequate information and control systems are in place.

OECD (2004) evaluated corporate scandals that undermined confidence in corporations and financial markets, emphasizing the need for extensive consultations with private sector stakeholders to assess corporate governance processes.

Mallin, Mullineux & Wihlborg (2005) examined the role of institutional investors and the financial sector in corporate governance, comparing EU and US reform proposals and assessing prospects for convergence in governance procedures.

Cromme (2005) delved into the significance of corporate governance within the German context, particularly focusing on the German corporate governance code and potential future developments.

Mintz (2005) conducted an investigation into the development of corporate governance systems, considering cultural underpinnings, legal structures, and financing methods in the US, UK, and Germany.

Ho (2005) discovered a robust correlation between effective corporate governance practices and firm competitiveness, highlighting the interconnected nature of governance attributes.

Melvin et al. (2005) provided a definition of corporate governance that encompasses corporate decision-making and control, including aspects such as board structure and stakeholder relations.

Nestor (2005) explored governance challenges in newly privatized firms, emphasizing the significance of minority shareholder power, board unity, and regular CEO evaluations.

Ehikioya (2009) examined the relationship between corporate governance structures and firm performance in Nigeria, revealing a positive impact of ownership concentration on performance.

Reddy, Locke, and Scrimgeour (2010) analyzed the influence of principles-based corporate governance practices on firm financial performance, noting a positive effect of remuneration committees on performance.

Devkota (2013) concluded that corporate governance practices in Nepal, particularly in the financial sector, were deficient due to factors such as lack of awareness, professionalism, and weak legal and regulatory systems, necessitating substantial improvements.

Pradhan (2014) investigated the correlation between corporate governance and bank performance in Nepal, examining indicators like board size, board independence, return on assets (ROA), return on equity (ROE), and non-performing loans. The study indicated that higher leverage and a greater number of independent directors on the board could

enhance ROE. However, it did not find a clear association between the number of board meetings and ROE, nor did it establish that larger boards and increased board meetings would decrease non-performing loans.

Ghafar (2014) researched the relationship between corporate governance and the profitability of Islamic banks in Pakistan. The findings suggested that enlarging the board size of a bank could lead to greater profitability. Both ROA and ROE exhibited a significant positive correlation with board size, indicating that profitability tends to rise with an increase in the board size. A larger board was linked to improved bank value, reflected in increased profitability.

2.3 Research gap

Previous researchers have extensively delved into corporate governance, highlighting its crucial role in decision-making, control mechanisms, and board structure, while also emphasizing its impact on organizational performance. Factors like ownership structure, board cohesion, and organizational culture have been identified as significant contributors to positive outcomes within organizations. Furthermore, researchers have underscored the essential tasks of the board, particularly in terms of shaping business strategy and appointing CEOs, as pivotal elements of effective corporate governance.

Moreover, studies have showcased the importance of shareholder rights through governance indices, revealing that stronger shareholder rights correlate with increased firm profitability, sales growth, and reduced capital expenditure, underscoring the criticality of sound governance practices.

However, despite the considerable body of research in this area, there remains a noticeable gap in systematic studies concerning corporate governance practices in the Nepalese banking sector, especially among Class A banks. To address this gap, the current study focuses on five selected banks: Machhapuchre Bank Limited, Laxmi Sunrise Bank Limited, Everest Bank Limited, Global IME Bank Limited, and Nabil Bank Limited.

The study employs a combination of primary data collected through research questionnaires and secondary data sourced from various outlets such as financial reports,

research journals, and both published and unpublished reports. Key variables under examination include board independence and size, audit quality, accounting systems, disclosure practices regarding financial reports, organizational performance metrics, and the role of shareholders in board selection, voting rights, and the legal framework.

Furthermore, the study aims to glean insights into the perspectives of top-level personnel to understand how they perceive and implement good corporate governance practices within their respective organizations.

CHAPTER-III

RESEARCH METHODOLOGY

The research methodology serves as a structured framework adopted by scholars to investigate specific issues with well-defined objectives. It encompasses a set of principles and protocols that steer the research process. This chapter delineates the methodology employed in the study, including the selected research design, data collection methods, sampling techniques, and statistical analyses utilized.

Initially, the study area and sample population are outlined to provide context for the research endeavor. Following this, the instruments employed for data collection are elaborated upon, along with the steps taken to ensure the validity and reliability of these instruments.

Ultimately, this chapter elucidates the operationalization of the research methodology, which aims to gather data for analysis and contribute to the findings of the study.

3.1 Research design

Research design encompasses the strategies employed to gather, organize, analyze, interpret, and present data in a research study. It encompasses various frameworks for conducting research, each with its distinct methods and procedures. Choosing an appropriate research design is critical as it guides researchers in making methodological decisions and interpreting the study's findings.

In this study, a mixed methods approach was selected, and the specific research design was determined based on its suitability for addressing the research problem. The research design serves as the blueprint, structure, and methodology for investigation, aimed at obtaining answers to the research questions while controlling for variability.

Questionnaire sets were distributed among a conveniently selected sample of 50 respondents. The study employs both descriptive and analytical research approaches. The descriptive approach is utilized to elucidate the concept of corporate governance, while analytical approaches are employed to scrutinize corporate governance practices within organizations.

3.2 Population

Research endeavors to unveil novel insights by examining a group of individuals or entities referred to as the population. As per "Polit and Hungler," a population comprises all individuals or objects sharing similar attributes. The target population denotes the particular subset of the population that the researcher aims to investigate. While a census survey involves collecting data from every member of the population, survey researchers often opt for sampling, gathering data from a representative subset known as the sample. In this study, the population comprises 20 commercial banks, representing the entities under scrutiny.

3.3 Sample

A sample represents a segment of the population chosen for inclusion in the study, serving as a subset of measurements derived from the population of interest. As per de Vos et al. (2002), a sample refers to a small portion of the overall set of objects, events, or individuals that collectively constitute the subject of investigation. In survey research, researchers frequently employ non-random probability sampling methods, such as convenience and judgmental sampling procedures, to select their sample.

In this study, the researcher has chosen five commercial banks to be included in the sample. These banks are:

- Machhapuchre Bank Limited.
- Laxmi Sunrise Bank Limited
- Everest Bank Limited
- Global IME Bank Limited.
- Nabil Bank Limited

Corporate governance variables

It was investigated the influence of corporate governance oversight on the relationship between default risk and ERC (earnings response coefficient), a selection of corporate governance attributes was made to assess firms' likelihood of defaulting on their debt obligations. The chosen variables for examining whether corporate governance moderates the impact of default risk on ERC include Board of Directors (BOD) Independence and

its size (audit quality), the frequency of BOD meetings, primarily as independent variables, and profitability as the dependent variable. Additionally, other variables such as accounting system and disclosure of financial reports, organizational performance, the role of shareholders in BOD member selection, voting rights, and the legal environment are considered in the analysis.

3.4 Nature and sources of data

The research primarily relies on primary data to explore the correlation between corporate governance and the performance of private organizations. Information is sourced from the Securities Board Nepal and extracted from the financial statements of selected banks listed on the security exchange. Additionally, a structured questionnaire is utilized to collect primary data from respondents. Semi-structured questionnaires are distributed across various selected banks to gather relevant information.

Primary Data

The primary data for this study is obtained from top-level managers of commercial banks listed on the security exchange. Due to practical constraints in including the entire population, a sample of 50 conveniently-approached respondents is selected from five sample banks: Everest Bank Limited, Machhapuchre Bank Limited, Global IME Bank Limited, Laxmi Sunrise Bank Limited, and NABIL Bank Limited. The sampling method employed is judgmental, encompassing directors, managers, assistant managers, officers, Chartered Accountants (CAs), Associate Chartered Certified Accountants (ACCAs), as well as other stakeholders such as investors and experts. Informal interviews are conducted with the Board of Directors, top management, and staff, while surveys are administered among shareholders and customers.

Secondary Data

Secondary data for this study is gathered from various sources including articles, publications, news sources, and minutes from Annual General Meetings (AGMs). Reports from regulators such as the Nepal Rastra Bank (NRB), Securities Board of Nepal (SEBON), and Nepal Stock Exchange (NEPSE) are also utilized. Company audit reports

from ICRA, daily share price indexes, and annual reports are additional sources of secondary data.

3.5 Method of Data collection

A carefully structured questionnaire was developed and distributed among the sample selected using judgmental methods. Microsoft Excel spreadsheet was utilized to systematically organize and compute the collected data for subsequent analysis. Each variable was clearly defined, and data entry was thoroughly checked to ensure precision. The questionnaire design benefitted from input from field experts, incorporating diverse scales to effectively capture responses.

Questions 1, 2, 3, 6, and 8 were constructed using a nominal scale, while questions 4, 5, and 7 utilized an ordinal scale, prompting respondents to rank items based on perceived importance. Question 9 adopted a binary yes-no format, while question 10 was open-ended, enabling respondents to provide varied perspectives on corporate governance issues in the Nepalese banking sector. Question 11 employed a 5-point Likert scale, allowing responses to range from strongly disagree to strongly agree. Additionally, demographic variables such as gender, profession, position, formal education, professional education, and age were incorporated into the questionnaire.

The structured questionnaires were distributed to 50 respondents across different organizations and collected within a timeframe of 15 to 20 minutes. The researcher personally visited each respondent in various organizations, providing clarification on item meanings and instructions for completing the questionnaire when necessary.

Statistical Tools

This study utilizes fundamental statistical methods, including percentages and means, to analyze the primary data. The findings of the analysis are methodically tabulated, compared, examined, and interpreted. Descriptive statistical approaches are employed to succinctly summarize and investigate the data.

Percentages

Percentages are frequently used to assess the percentage of respondents expressing agreement or disagreement on different corporate governance matters. This calculation

involves dividing the number of respondents who agree or disagree by the total number of respondents and multiplying the quotient by 100.

Mean Rank

Mean rank serves as a tool to gauge the consensus or divergence among the entire sample concerning particular aspects of corporate governance. Questions structured on the Likert Scale are quantified using mean rank to enable qualitative assessments regarding corporate governance issues within Nepalese financial institutions. It involves averaging the ranks assigned to each response option across all respondents, facilitating a nuanced understanding of their perspectives.

$$\text{Mean rank} = \sum fx/n$$

Where, f = frequency of respondents

X= rank given by the respondents and

N= total number of respondents

Analysis of data

Data analysis entails the organized scrutiny and understanding of the gathered information, often presented through narratives, charts, or tables. It encompasses two main types of statistics: descriptive and inferential (Hagedorn and Labovitz (1981). Descriptive statistics provide a summary of the collected data, while inferential statistics are used to make conclusions about populations based on sample data. In this study, the researcher examined the outcomes of the data analysis to evaluate the state of corporate governance and its different elements.

Validation

To ensure the accuracy and reliability of the findings, data validation was carried out using the triangulation method. This approach involved comparing and cross-referencing the results obtained from primary data with those obtained from secondary data sources, and vice versa. By confirming consistency between different sources of data, the analysis was strengthened, and the reliability of the findings was enhanced.

Generalization

The study's findings can be applied broadly depending on whether major theories of economic integration are affirmed or refuted. The methodology chapter underscores the systematic nature of research in delineating the boundaries of the understanding. It highlights research's crucial role in uncovering and generating new knowledge through a structured pursuit of comprehension.

Research design aims to gain insights into individuals' activities, beliefs, preferences, and attitudes by directly involving a selected sample of respondents.

Additionally, data analysis entails organizing and examining collected data using narratives, charts, or tables to derive significant conclusions.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter encompasses the exposition and examination of data obtained from respondents, aligning with their provided responses. The distribution and collection of questionnaires were conducted directly by the researcher. Following this, the gathered data underwent analysis utilizing various tools and methodologies. The outcomes of this analysis were systematically presented and elaborated upon in subsequent sections.

4.1 Nature of the Respondents

The respondents participating in this study are drawn from a selection of commercial banks, specifically MBL, EBL, NABIL, GBIME, and LSBL. Their characteristics, including their length of service, gender, age, educational background, job titles, and professional experiences, are detailed as follows:

Table 4.1

Gender of the respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	40	80.0	80.0	80.0
Female	10	20.0	20.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.1 shows that 80% of the respondents are male, while 20% are female, suggesting a notable gender imbalance in the sample, with males being significantly more represented. Furthermore, the subsequent table provides an overview of the age distribution among the respondents.

Table 4.2

Age of the respondents

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Below 30 years	14	28.0	28.0	28.0
30 to 40 years	24	48.0	48.0	76.0
Above 40 years	12	24.0	24.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.2 classifies the age of the respondents into three categories: below 30 years, 30 to 40 years, and above 40 years. Among the total respondents, 28% are below 30 years old, 48% belong to the 30 to 40 years age group, and 12% are above 40 years old. Remarkably, the largest proportion falls within the 30 to 40 years age range. The subsequent table provides details on the educational qualifications of the respondents.

Table 4.3

Academic qualification of the respondents

Formal education	Frequency	Percent	Valid Percent	Cumulative Percent
Under graduate	10	20.0	20.0	20.0
Graduate	25	50.0	50.0	70.0
Master	15	30.0	30.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.3 presents the education levels of the respondents. The majority, comprising 50%, hold a graduate degree. Furthermore, 30% of the total respondents have attained a master's degree, while 20% possess an undergraduate degree. Hence, the percentage of respondents with graduate-level education surpasses those with other educational backgrounds.

Table 4.4

Position or Designation of the respondents

Position	Frequency	Percent	Valid Percent	Cumulative Percent
Directors	8	16.0	16.0	16.0
Manager	17	34.0	34.0	50.0
Assistant Manager	9	18.0	18.0	68.0
Officer	8	16.0	16.0	84.0
Charter Accountant	6	12.0	12.0	96.0
Others	2	4.0	4.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.4 categorizes respondents into various positions within their organizations, including chairman, managing directors, directors, deputy directors, assistant directors, and others. Among these categories, there are 8 respondents classified as directors, representing 16% of the total respondents from different organizations. Furthermore, 17 respondents hold managerial positions, constituting 34% of the total. Assistant managers account for 9 respondents, making up 18%, while 8 respondents are officers, representing 16% of the total. Additionally, there are 6 respondents classified as chartered accountants, comprising 12%, and 2 respondents categorized as others (professors from universities), and accounting for 4%. Thus, it can be observed that approximately half of the respondents hold managerial positions. Further details regarding the gender of the respondents will be provided in the subsequent sections.

Table 4.5

The work experience of respondents in their professions

Work experience	Frequency	Percent	Cumulative Percent
Below 5 years	12	24.0	24.0
5 to 10 years	23	46.0	70.0
Above 10 years	15	30.0	100.0
Total	50	100.0	

Source: Field survey 2024 by using SPSS

Table 4.5 depicts the distribution of respondents based on their years of work experience. About 24% of the respondents reported having less than 5 years of experience, while 46% indicated having professional experience ranging from 5 to 10 years. Moreover, 30% of the respondents reported having more than 10 years of work experience. The majority of respondents, comprising 46% of the total, fall within the 5 to 10 years' work experience category. Further details regarding respondents' positions are provided in the subsequent table.

Awareness on Corporate Governance

Table 4.6

Awareness on Corporate Governance

Familiar	Frequency	Percent	Cumulative Percent
Very little	12	24.	24.
I am familiar	28	56	80
I can understand	8	16	96
I am expert	2	4.	100
Total	50	100.0	

Source: Field survey 2024 by using SPSS

Table 4.6 presents the respondents' levels of awareness regarding Corporate Governance. Among the total respondents, 56% expressed familiarity with corporate governance, while 16% indicated a moderate understanding. Furthermore, 4% identified themselves as experts in the field, and 24% acknowledged having limited understanding of corporate governance. The findings highlight a significant proportion of respondents with some level of familiarity with corporate governance, indicating a notable level of awareness among the participants.

Opinion of Respondents on Corporate Governance

The respondents were surveyed about their views on corporate governance, and their responses were examined and grouped into categories, leading to a compilation of responses. The following table illustrates these categorized responses.

Table 4.7

Meaning of Corporate Governance by Respondents

Responses	Number of respondent	Percentage
Professional Management	1	2
Following rules and regulations	1	2
Shareholder's protection	1	2
All of the above	47	94
Total	50	100

Source: Field survey 2024 by using SPSS

Table 4.7 indicates that 94% of respondents acknowledge corporate governance to entail elements like professional management, timely financial disclosure, ethical business conduct, shareholder safeguarding, and compliance with government regulations. Only 2% of respondents cited professional management, regulatory compliance, and shareholder protection. This highlights a widespread recognition of corporate governance among senior and mid-level managers in Nepalese banks.

Corporate governance and issuing in Nepalese banking sector

Table 4.8

Most important issues of corporate governance

Important issue	Frequency	Percent	Cumulative Percent
Professional management	12	24	24
Following rules and regulations	6	12	36
Shareholders protection	22	44	80
Accounting disclosure	10	20	100
Total	50	100	

Source: Field survey 2024 by using SPSS

According to Table 4.8, 44% of respondents regard professional management as the top priority in corporate governance. Additionally, 24% prioritize the protection of shareholders' rights, while 20% emphasize timely disclosure, and 12% highlight adherence to regulations. This indicates that a substantial portion of respondents perceives professional management as the primary concern in corporate governance.

Corporate Governance Status and its important in Nepalese banking sector

In terms of enhancing corporate governance, most respondents prioritize professional management as the primary concern. Subsequently, timely financial disclosure ranks second, followed by ethical business practices in third place. Equitable treatment of shareholders comes fourth, and adherence to government regulations ranks fifth. This ranking highlights the significance of efficient management practices and transparent financial reporting in bolstering corporate governance.

Table 4.9

Importance aspects to make better Corporate Governance Status

Important issue	Mean rank
Shareholder's protection	2.52
Following NRB directives	3.04
Timely financial disclosure	4.78
Professional management	4.92
Timely held AGM	4.96
Ethical business	5.1
Relationship of Management with minority shareholder	5.3

Source: Field survey 2024 by using SPSS

Table 4.9 presents the mean ranks attributed to seven significant aspects of corporate governance. Shareholder protection garnered the lowest mean rank of 2.52, indicating its relatively higher importance among respondents. Following closely was adherence to directives from the Nepal Rastra Bank (NRB), with a mean rank of 3.04, succeeded by timely financial disclosure at 4.78. Professional management received a mean rank of 4.92, while the timely holding of Annual General Meetings (AGMs) and ethical business practices were rated at 5.1. Lastly, the relationship between management and minority shareholders obtained the highest mean rank of 5.3, indicating its perceived significance among the surveyed respondents.

Nepalese banking sector's Situations

The viewpoints of respondents regarding the separation of roles between the chairman and CEO in the Nepalese banking sector are outlined below:

Table 4.10

Separation of roles of chairman and CEO

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	30	60	60	60
No	20	40	40	100.0
Total	50	100	100.0	

Source: Field survey 2024 by using SPSS

Table 4.10 depicts that 60 percent of all respondents supported the separation of roles between the chairman and CEO, while 40 percent expressed disagreement. The percentage of those in agreement is notably higher.

Table 4.11

Majority of directors are non- executive

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	26	52.0	52.0	52.0
No	24	48.0	48.0	100.0
Total	40	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.11 reveals that 52 percent of all respondents acknowledged that the majority of directors are non-executive, while 48 percent expressed disagreement. The percentage of disagreement is notably high.

Table 4.12

Significant number of institutional investors is there

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	18	36.0	36.0	36.0
No	32	64.0	64.0	100.0
Total	40	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.12 shows that 36 percent of all respondents recognized the importance of addressing investors' concerns, while 64 percent expressed disagreement. The percentage of disagreement is notably high.

Table 4.13

The shareholder selects significant number of directors in AGM

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	21	42	42	42
No	29	58	58	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.13 illustrates that 42 percent of all respondents acknowledged the significance of appointing a substantial number of directors from outside the organization, while 58 percent expressed disagreement. The percentage of disagreement is notably high.

Table 4.14

Good shareholder's right of voting

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	24	78	48	48
No	26	22	52	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.14 demonstrates that a substantial majority, 78 percent, of all respondents recognized the importance of maintaining robust shareholders' voting rights, while 22 percent expressed disagreement. The percentage of disagreement is notably high.

Table 4.15

Good reporting and information system

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	44	44	44
No	28	56	56	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.15 illustrates that merely 44 percent of all respondents acknowledged the significance of adhering to good reporting practices, while 56 percent expressed disagreement. The percentage of disagreement is notably high.

Table 4.16

Timely performance report reviewed

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	20	40	40	40
No	30	60	60	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.16 demonstrates that just 40 percent of the total respondents recognized the importance of reviewing timely performance reports, while 60 percent expressed disagreement. The percentage of disagreement is notably high.

Table 4.17

Satisfied in internal auditing and control system

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	44	44	44
No	28	56	56	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.17 shows that 44% of respondents are agreed with the importance of having a satisfactory internal auditing and control system, while 56% disagreed. The percentage of disagreement is notably high.

Table 4.18

Professional management system

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	44	44	44
No	28	56	56	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.18 demonstrates that 44% of all respondents agreed with the significance of a professional management system, while 56% disagreed. The proportion of disagreement is notably high.

Table 4.19

Ethical businesses

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	27	54	54	54
No	23	46	46	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.19 shows that 54% of all respondents agreed with the importance of ethical business practices, while 46% disagreed. The proportion of agreement is notably high.

Table 4.20

Timely financial audits

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	44	44	44
No	28	56	56	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.20 indicates that 44% of all respondents agreed with the necessity of timely financial audits, while 56% disagreed. The predominance of disagreement is notably high.

Table 4.21

Adequate financial disclosures

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	20	40	40	40
No	30	60	60	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.21 demonstrates that 40% of all respondents agreed with the importance of sufficient financial disclosure, while 60% disagreed. The prevailing disagreement is notably substantial.

Table 4.22

Good legal audit system

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	24	48	48	48
No	26	52	52	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.22 demonstrates that 48% of all respondents agreed with the importance of having a robust legal audit system, while 52% disagreed. The prevailing disagreement is notably substantial.

Table 4.23

Good organization culture

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	18	36	36	36
No	32	64	64	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.23 shows that 36% of all respondents agreed on the importance of maintaining a positive organizational culture, while 64% disagreed. The notable predominance of disagreement is evident.

Table 4.24

Good relationship of management with shareholders

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	19	38	38	38
No	31	62	62	100
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.24 illustrates that only 38% of all respondents agreed on the significance of fostering a positive relationship between management and shareholders, while 62% expressed disagreement. The notably high predominance of disagreement is noteworthy.

Table 4.25

Good working environments

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	26	52	52	52
No	24	48	48	100.0
Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.25 indicates that 52% of all respondents affirmed the importance of having a robust working environment system, while 48% expressed disagreement. The notably high percentage of agreement is noteworthy.

Table 4.26

Good enhancement opportunities to employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	24	48.0	48.0	48.0
No	26	52.0	52.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

Table 4.26 depicts that 48% of all respondents acknowledged the significance of offering substantial growth opportunities to employees, while 52% expressed disagreement. The notably high percentage of disagreement is noteworthy.

Information about banking sector and Corporate Governance system

The questionnaire comprised statements concerning the Corporate Governance framework within the Nepalese banking sector. Respondents were tasked with indicating their opinions using a five-point Likert scale.

Table 4.27

Information of Nepalese banking sector related to corporate governance

Variables	Mean rank
Managers should be from professionals; not from the investors team	4.6
Nepalese <i>banking sector</i> should cope with the changing legal environment	3.96
Nepalese <i>banking sector</i> should maintain fair accounting system and disclose financial reports timely	4.56
Nepalese <i>banking sector</i> have realization of obligation towards shareholders and other stakeholders	3.38
Good corporate governance positively affect the company 's performance	4.36
AGM should be held within stipulated time after finishing fiscal year	4.4

Source: Field survey 2024 by using SPSS

Table 4.27 presents the mean ranks assigned to various statements concerning corporate governance within the Nepalese banking sector. The statement "Managers should be

professionals, not from the investors' team" received a mean rank of 4.6. Similarly, "The Nepalese banking sector should adapt to the evolving legal landscape" garnered a mean rank of 3.96, while "The Nepalese banking sector should uphold fair accounting practices and ensure timely financial disclosures" achieved a mean rank of 4.56. On the other hand, the statement "The Nepalese banking sector recognizes its obligations towards shareholders and other stakeholders" obtained a mean rank of 3.38. "Positive corporate governance practices enhance company performance" was rated with a mean rank of 4.36, and lastly, "Annual General Meetings (AGMs) should be conducted promptly after the fiscal year" received a mean rank of 4.4.

Corporate governance and Profitability of banks

The viewpoints of respondents regarding Board of Directors (BOD) size, BOD independence, the frequency of BOD meetings, and their impact on bank profitability are outlined. Furthermore, the correlation between Return on Equity (ROE) and Return on Assets (ROA) with corporate governance factors is depicted in the following sections.

Size of Board of Director's is negatively related with Profitability

The following table presents respondents' views on whether there is a negative correlation between the size of the Board of Directors (BOD) and profitability.

this matter.

Table 4.28

Size of Board of Director

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6	6	6
	Disagree	15	30	30	36
	Neither Agree nor Disagree	7	14	14	50
	Agree	20	40	40	90
	Strongly Agree	5	10	10	100
	Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.28 suggests that 40% of respondents perceive a negative correlation between the size of the Board of Directors (BOD) and bank profitability. This indicates that a smaller BOD size might lead to increased profitability for the bank, while a larger BOD size could result in lower profits. Conversely, 10% of respondents strongly agree with this perspective, while 6% strongly disagree with it.

Relations of Board of Independence bank's profitability

The relationship between Board independence and profitability is investigated in the following table:

Table 4.29

Board of Independence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2	2	2
	Disagree	10	20	20	22
	Neither Agree nor Disagree	8	16	16	38
	Agree	24	48	48	86
	Strongly Agree	7	14	14	100
	Total	50	100	100	

Source: Field survey 2024 by using SPSS

Table 4.29 shows that 48% of respondents believe in a positive correlation between Board of Directors (BOD) independence and bank profitability. This implies that a greater degree of BOD independence corresponds to higher profitability for banks, while lower independence may lead to decreased profitability. Furthermore, 14% of respondents strongly support this view, while 2% strongly oppose it.

Relation between the Number of Board of meeting and bank's profitability

The association between the number of board meetings and bank profitability is investigated in the following table:

Table 4.30

Number of Board meeting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	4	4	4
	Disagree	15	30	30	34
	Neither Agree nor Disagree	5	10	10	44
	Agree	22	44	44	88
	Strongly Agree	6	12	12	100
	Total	50	100	100	

Source: Field survey 2024 by using SPSS

In Table 4.30, 44% of respondents indicate a positive association between the frequency of board meetings and bank profitability. This suggests that as the number of board meetings increases, bank profits tend to rise, while a reduction in the frequency of meetings may lead to decreased profitability. Moreover, 12% of respondents strongly support this perspective, while 4% express strong disagreement.

Better corporate governance, higher ROE (Return on Equity) of banks

The correlation between improved corporate governance and increased Return on Equity (ROE) is analyzed in the following table:

Table 4.31

Better corporate governance yield higher ROE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2	2	2
	Disagree	12	24	24	26
	Neither Agree nor Disagree	5	10	10	36
	Agree	22	44	44	80
	Strongly Agree	10	20	20	100
	Total	50	100	100	

Source: Field survey 2024 by using SPSS

According to Table 4.31, 44% of the surveyed participants suggest that enhanced corporate governance contributes to greater return on equity (ROE) for banks. Among them, 20% express strong agreement with this notion, while merely 2% strongly oppose it.

Better corporate governance, higher ROA (Return on Assets) of banks

The correlation between improved corporate governance and increased Return on Assets (ROA) is depicted in the subsequent table:

Table 4.32

Better corporate governance yield higher ROA

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	4	4	4
	Disagree	14	28	28	32
	Neither Agree nor Disagree	6	12	12	44
	Agree	20	40	40	84
	Strongly Agree	8	16	16	100
	Total	50	100	100	

Source: Field survey 2024 by using SPSS

Within Table 4.32, it's evident that 40% of respondents perceive a positive relationship between enhanced corporate governance and increased Return on Assets (ROA) for banks. This perspective is further broken down, with 16% strongly agreeing with this notion, while a mere 2% strongly disagree with it.

Non-Performing loan is negatively related with bank's Profitability

This study is the correlation table representing the relationship between non-performing loans (NPLs) and bank profitability:

Table 4.33

Non-performing loan is negatively related with bank's Profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6	6	6
	Disagree	16	32	32	38
	Neither	3	6	6	44
	Agree nor Disagree				
	Agree	25	50	50	94
	Strongly Agree	3	6	6	100
	Total	50	100	100	

Source: Field survey 2024 by using SPSS

In Table 4.33, half of the participants, constituting 50%, acknowledge that reduced levels of non-performing loans (NPL) correlate positively with increased profitability in banks. This suggests that a decrease in NPL is associated with higher profitability, while an increase in NPL leads to reduced profitability. Additionally, an equal proportion of respondents, accounting for 6%, express strong agreement and strong disagreement with this viewpoint.

Descriptive Analysis of Corporate governance variables and profitability

The following table presents the average values and standard deviations for corporate governance variables, comprising Board of Directors (BOD) size, board independence, the frequency of BOD meetings, as well as metrics for profitability such as Return on Equity (ROE), Return on Assets (ROA), and non-performing loans.

Table 4.34

Descriptive Analysis of Corporate governance variables and profitability

	Size of Board of Director	Board Independence	Number of BOD meeting	Return on Equity	Return on Assets	Non- Performing Loan
N Valid	50	50	50	50	50	50
Missing	0	0	0	0	0	0
Mean	3.18	3.52	3.3	3.56	3.36	3.18
Std. Deviation	1.15511	1.0349	1.14731	1.12776	1.17387	1.13731
Minimum	1	1	1	1	1	1
Maximum	5	5	5	5	5	5

Source: Field survey 2024 by using SPSS

Table 4.34, the average responses for corporate governance variables suggest that there is agreement with the concept of board independence, indicated by a mean score of 3.52, which aligns with the given view (rated as 4). Similarly, respondents show agreement regarding the positive impact of both the size of the Board of Directors (BOD) and the frequency of BOD meetings on profitability. Concerning profitability, the mean for Return on Equity (ROE) exceeds that of Return on Assets (ROA), with respondents leaning slightly more towards agreement, averaging 3.56 (rated as 4). Additionally, respondents agree that lower levels of non-performing loans correlate with higher returns or profitability for banks. When analyzing data fluctuation, ROA demonstrates the highest deviation, while BOD independence displays the least deviation among these variables.

Testing hypothesis

- i. H₀: There is no statistically significant correlation between Board size and bank profitability (ROE and ROA).
H₁: There is a statistically significant correlation between Board size and bank profitability (ROE and ROA).
- ii. H₀: There is no statistically significant correlation between Board Independence and bank profitability (ROE and ROA).

- H1: There is a statistically significant correlation between Board Independence and bank profitability (ROE and ROA).
- iii. H0: There is no statistically significant correlation between the number of Board of Directors (BOD) meetings and bank profitability (ROE and ROA).
H1: There is a statistically significant correlation between the number of Board of Directors (BOD) meetings and bank profitability (ROE and ROA).
- iv. H0: There is no correlation between corporate governance variables.
H1: There is a correlation between corporate governance variables.

Table 4.35

Correlation Matrix of Corporate governance and Profitability variables

		Size of Board of Director	Board Independence	Number of BOD meeting	Return on Equity	Return on Assets
Size of Board of Director	Pearson Correlation	1	.910**	.959**	.908**	.945**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	50	50	50	50	50
Board Independence	Pearson Correlation	.910**	1	.932**	.952**	.935**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	50	50	50	50	50
Number of BOD meeting	Pearson Correlation	.959**	.932**	1	.924**	.979**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	50	50	50	50	50
Return on Equity	Pearson Correlation	.908**	.952**	.924**	1	.939**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	50	50	50	50	50
Return on Assets	Pearson Correlation	.945**	.935**	.979**	.939**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	50	50	50	50	50

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

Table 4.35 illustrates the results of the t-paired test, utilizing the P-value approach. It demonstrates that the dependent variable, Profitability (ROE and ROA), is significantly correlated with all independent variables, as indicated by P-values lower than both 1% and 5% significance levels. For ROE, the highest explanatory power is attributed to Board independence, accounting for 90.63% ($0.952 \times 0.952 = 0.9063$), while the lowest is associated with Board size at 82.45% (0.908×0.908). Conversely, for ROA, the number of BOD meetings exhibits the highest explanatory power, explaining 95.84% ($0.979 \times 0.979 = 0.9584$), while Board independence shows the lowest at 87.43% (0.935×0.935). Moreover, the independent variables (Size of BOD, BOD independence, number of BOD meetings) are correlated, evidenced by a P-value of .000, which is below

0.01 and 0.05 significance levels, thus accepting H1 and rejecting H0. Consequently, the results suggest a significant relationship between board size and bank profitability, board independence and bank profitability, number of BOD meetings and bank profitability, and that the corporate governance variables are correlated, as revealed by the t-paired test.

Problems of Corporate Governance in Nepalese banking sectors

Respondents were surveyed to evaluate the prevailing issues in corporate governance within the Nepalese banking sector. Their opinions were gathered and organized into categories, which are outlined in the following table:

Table 4.36

Problems of corporate governance in Nepalese banking sectors

	Frequency	Percent	Valid Percent	Cumulative Percent
AGM held in time	6	12.0	12.0	12.0
Treat as family business	7	14.0	14.0	26.0
Minority of shareholder issue	12	24.0	24	50.0
Running organization without policy and procedure	5	10.0	10.0	60.0
Poor transparency disclosure	6	12.0	12.0	72.0
Lack of professional management	5	10.0	10.0	82.0
Not appropriate rules and regulations	9	18.0	18.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2024 by using SPSS

In Table 4.36, respondents identified several key issues regarding corporate governance in the Nepalese banking sector. The primary concern highlighted is the treatment of minority shareholders, indicating perceived inequitable treatment and inadequate regulatory frameworks. Another significant issue identified is the prevalence of family business dynamics, where non-competent family members are often recruited as bank staff. Additionally, delays in holding Annual General Meetings (AGMs) following the fiscal year are noted as problematic. Other issues include operating without clear policies and procedures, insufficient transparency and disclosure practices, a lack of professional management, and inadequate regulatory frameworks.

4.2 Descriptive Analysis

Table: 4.37

Descriptive Statistics

Variables	N	Range	Minimum	Maximum	Mean	Std. Deviation
ROA	5	.59	1.36	1.95	1.7216	.23282
ROE	5	5.71	11.86	17.57	15.1580	2.06174
Size	5	63.40	95.64	159.04	124.9496	25.49464
Interest	5	.74	3.85	4.59	4.1780	.29150
CD Ratio	5	8.51	73.78	82.30	79.0928	3.66759
NPL to TL	5	.57	.82	1.39	1.1456	.20779
Valid N (listwise)	5					

Source: Field survey 2024 by using SPSS

Table 4.37 illustrates various metrics reflecting the performance and characteristics of selected banks. The Return on Assets (ROA) indicates that elected banks achieve profitability 1.73 times, suggesting efficient asset utilization. The range between the maximum and minimum ROA values is 0.59 times, with a standard deviation indicating a 23.28% risk in asset returns. Similarly, Return on Equity (ROE) measures profitability, with a mean ratio of 15.18%, a maximum of 17.57%, and a minimum of 11.86%. The range of ROE values spans 5.71%, with a risk of 2.07% in shareholder equity returns. Bank size, represented by total assets, has a mean ratio of 124.95%, ranging from 95.65% to 159.04%, with a deviation of 25.495%. The weighted average interest rate spread is 4.18%, with a range of 0.74%, and a deviation of 0.29%. The credit to total deposit ratio, optimal at 80%, averages 79.09%, ranging from 73.78% to 82.30%, with a deviation of 3.67%. Non-performing loans as a percentage of total loans average 1.15%, ranging from 0.82% to 1.39%, with a range of 0.57% and a deviation of 0.21%.

4.3 Correlation analysis

In the correlation analysis, a simple correlation coefficient, specifically the Pearson correlation coefficient, is computed. This coefficient, denoted as (r), varies between -1 and +1, indicating the direction and strength of the linear relationship between the two variables. The correlation between variables can be positive or negative. The sign of the coefficient signifies the direction of the relationship, while its magnitude represents the

strength of the association. A perfect positive correlation, where the coefficient is exactly 1, means that as one variable moves, either up or down, the other variable moves in the same direction. Conversely, a perfect negative correlation implies that two variables move in opposite directions. A correlation coefficient of zero indicates no relationship between the variables. In this study, the correlation coefficients among the dependent and independent variables are calculated using a Likert scale with five points for each factor or variable.

Table 4.38

Correlation matrix to ROA constant with other variables

Variables		ROA	Size	Interest	CD Ratio	NPL to TL
ROA	Pearson Correlation	1	-.441	.521	-.266	-.367
	Sig. (2-tailed)		.457	.368	.665	.543
	N	5	5	5	5	5
Size	Pearson Correlation	-.441	1	.111	.829	-.205
	Sig. (2-tailed)	.457		.858	.083	.741
	N	5	5	5	5	5
Interest	Pearson Correlation	.521	.111	1	.573	-.954*
	Sig. (2-tailed)	.368	.858		.313	.012
	N	5	5	5	5	5
CD Ratio	Pearson Correlation	-.266	.829	.573	1	-.624
	Sig. (2-tailed)	.665	.083	.313		.261
	N	5	5	5	5	5
NPL to TL	Pearson Correlation	-.367	-.205	-.954*	-.624	1
	Sig. (2-tailed)	.543	.741	.012	.261	
	N	5	5	5	5	5

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

Source: annual report of sampled banks calculation by using SPSS

Table 4.38 presents the correlation analysis results between various factors and the Return on Assets (ROA) of selected banks. The correlation coefficient between ROA and the size of selected banks is -0.441, indicating a negative correlation. However, the corresponding p-value of 0.457 exceeds the significance level of 0.05, suggesting no statistically significant relationship between ROA and bank size. Similarly, the correlation coefficient between ROA and the weighted average interest rate spread is 0.521, reflecting a positive relationship. Yet, the associated p-value of 0.368 exceeds the significance threshold, indicating no significant relationship between ROA and interest rate spread. Moreover, the correlation coefficient between ROA and the Credit-to-

Deposit (C-D) ratio is -0.266, signifying a negative relationship. However, the p-value of 0.665 surpasses the significance level, suggesting no significant association between ROA and C-D ratio. Lastly, the correlation coefficient between ROA and the Non-Performing Loans (NPL) to Total Loans ratio is -0.367, implying a negative correlation. Yet, the corresponding p-value of 0.543 exceeds the significance threshold, indicating no statistically significant relationship between ROA and NPL to Total Loan ratio for selected banks.

Table 4.39

Correlation matrix to ROE constant with other variables

Variables		ROE	Size	Interest	CD Ratio	NPLtoTL
ROE	Pearson Correlation	1	-.855	.217	-.512	-.013
	Sig. (2-tailed)		.065	.726	.378	.984
	N	5	5	5	5	5
Size	Pearson Correlation	-.855	1	.111	.829	-.205
	Sig. (2-tailed)	.065		.858	.083	.741
	N	5	5	5	5	5
Interest	Pearson Correlation	.217	.111	1	.573	-.954*
	Sig. (2-tailed)	.726	.858		.313	.012
	N	5	5	5	5	5
CD Ratio	Pearson Correlation	-.512	.829	.573	1	-.624
	Sig. (2-tailed)	.378	.083	.313		.261
	N	5	5	5	5	5
NPL to TL	Pearson Correlation	-.013	-.205	-.954*	-.624	1
	Sig. (2-tailed)	.984	.741	.012	.261	
	N	5	5	5	5	5

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

Source: annual report of sampled banks calculation by using SPSS

Table 4.39 illustrates the correlation analysis results between the Return on Equity (ROE) of selected banks and various factors. The correlation coefficient between ROE and the size of selected banks is -0.855, indicating a negative correlation. However, the corresponding p-value of 0.065 exceeds the significance level of 0.05, suggesting no statistically significant relationship between ROE and bank size. Similarly, the correlation coefficient between ROE and the weighted average interest rate spread is 0.217, suggesting a positive relationship. Nonetheless, the associated p-value of 0.726 exceeds the significance threshold, indicating no significant relationship between ROE and interest rate spread. Moreover, the correlation coefficient between ROE and the Credit-to-Deposit (C-D) ratio is -0.521, signifying a negative relationship. The p-value of

0.378 surpasses the significance level, indicating no significant association between ROE and C-D ratio. However, the correlation coefficient between ROE and the Non-Performing Loans (NPL) to Total Loans ratio is -0.367, indicating a negative correlation. Remarkably, the p-value of -0.013 is less than the significance level of 0.05, indicating a statistically significant relationship between ROE and NPL to Total Loan ratio for selected banks.

4.4 Regression Analysis

This section primarily focuses on regression analysis, where various models are employed to assess the influence of corporate governance on the financial performance of the chosen banks. Additionally, the validity of the models is examined through statistical significance tests such as t-tests, F-tests, and the coefficient of determination (R²). The regression results demonstrate how independent variables (corporate governance) and control variables (CD ratio, interest rate, bank size, and NPL to TL) impact dependent variables (financial performance metrics like ROA and ROE) across selected commercial banks.

Table 4.40

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	1.000 ^a	1.000	.	.	1.000	.	4	0	.

a. Predictors: (Constant), NPL to TL, Size, CD ratio, Interest

Table 4.41

Model Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	Sig.	Collinearity Statistics	
		B	Std. Error			Tolerance	VIF
1	(Constant)	1.560	.000		0.00		
	Interest	2.070	.000	2.592	0.02	.066	5.070
	Size	.012	.000	1.330	0.00	.115	8.732
	CD ratio	-.142	.000	-2.243	0.04	.079	1.683
	NPL to TL	1.097	.000	.979	0.01	.080	2.566

On the basis of above findings following regression model has been developed.

The model is: Projected (\hat{Y}) = $\beta_0 + \beta_1 * X_1 + \beta_2 * X_2 + \beta_3 * X_3 + \beta_4 * X_4 + T_n$

$$\hat{Y} = 1.560 + 2.070 * X_1 + 0.012 * X_2 + (0.142) * X_3 + 1.097 * X_4$$

X_1 = Interest Rate Spread: Independent Variable

X_2 = Size of Banks: Independent Variable

X_3 = Credit Deposit Ratio: Independent Variable

X_4 = Non-Performing Loan to Total): Independent Variable

\hat{Y} (Constant) = Return on Assets (ROA): Dependent Variable

\hat{Y} (Constant) = Return on Equity (ROE): Dependent Variable

Table 4.40 and 4.41 display the regression results along with the Variance Inflation Factor (VIF) test and F-test, assessing the goodness of the models. The Fisher's ratio, represented by the F-statistic, serves as evidence of the model's validity, with a value of approximately 0.00 and a corresponding p-value also of 0.00, which is less than or equal to 0.05, signifying statistical significance. Additionally, the VIF statistic for each independent variable is less than 10, indicating no multicollinearity among the independent variables and enabling the use of Ordinary Least Squares (OLS) regression model.

Furthermore, the coefficient of determination, denoted by R-Square, is 100%, implying that the model accounts for all variability in the Return on Assets (ROA) of the sampled commercial banks. This suggests that the model explains all systematic variations in the dependent variable, indicating that other unobserved factors contribute to the remaining variability in ROA.

In the regression analysis, the coefficient for the Interest Rate Spread variable is 2.070, indicating that a 1% increase in Interest Rate Spread leads to a 2.070% increase in the Return on Assets (ROA). The associated p-value of 0.00 is less than the significance level of 0.05, indicating a significant relationship between ROA and Interest Rate Spread. Similarly, for the Size of Banks variable, the coefficient is also 2.070, suggesting that a 1% increase in bank size results in a 2.070% increase in ROA. Additionally, the

coefficient for the Credit-to-Deposit (C-D) ratio variable is -0.142, indicating that a 1% increase in the C-D ratio leads to a 1.42% decrease in ROA. Lastly, for the Non-Performing Loans (NPL) to Total Loans variable, the coefficient is 1.097, suggesting that a 1% increase in NPL to TL results in a 1.097% increase in ROA.

Table 4.42

Model Summary of ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	1.000 ^a	1.000	.	.	1.000	.	4	0	.

a. Predictors: (Constant), NPL to TL, Size, CD ratio, Interest

Table 4.43

Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients	Sig.	Collinearity Statistics	
		B	Std. Error	Beta		Tolerance	VIF
1	(Constant)	-52.370	.000		0.10		
	Interest	9.165	.000	1.296	0.02	.066	15.070
	Size	-.098	.000	-1.214	0.40	.115	8.732
	CD ratio	.332	.000	.590	0.00	.079	12.683
	NPL to TL	13.329	.000	1.343	0.01	.080	12.566

On the basis of above findings following regression model has been developed.

The model is: Projected (\hat{Y}) = $\beta_0 + \beta_1 * X_1 + \beta_2 * X_2 + \beta_3 * X_3 + \beta_4 * X_4 + T_n$

$$\hat{Y} = -52370 + 0.165 * X_1 + (0.98) * X_2 + 0.332 * X_3 + 13.329 * X_4$$

The regression analysis reveals the following coefficients for the variables influencing Return on Equity (ROE), the coefficient for Interest Rate Spread is 9.165, indicating that a 1% increase in Interest Rate Spread leads to a 9.165% increase in ROE. For Size of Banks, the coefficient is -0.098, suggesting that a 1% increase in bank size results in a 0.098% decrease in ROE. The coefficient for Credit-to-Deposit (C-D) Ratios is 0.332, indicating that a 1% increase in C-D ratios leads to a 0.332% decrease in ROE. Lastly,

the coefficient for Non-Performing Loans (NPL) to Total Loans is 13.329, suggesting that a 1% increase in NPL to TL results in a 13.329% increase in ROE.

4.5 Major Findings

- 94% of participants concurred that corporate governance embodies elements like professional management, timely financial disclosure, ethical business practices, shareholder protection, and adherence to government regulations.
- A majority of respondents perceive professional management as a crucial aspect of corporate governance. Regarding the separation of roles between the chairman and CEO, 60% of participants expressed agreement.
- Generally, individuals involved in Nepalese banks are conversant with corporate governance concepts. Most respondents view corporate governance as a fusion of professional management, timely financial disclosure, ethical business practices, shareholder protection, and compliance with government regulations.
- Major corporate governance issues cited by respondents include poor transparency in disclosures, unequal treatment of minority shareholders, family-business dynamics, delayed Annual General Meetings (AGMs), and a lack of professional management.
- Regarding important corporate governance matters, shareholder protection was deemed the top priority by most respondents, followed by professional management and timely disclosure.
- The statement "Managers should be professionals, not from the investors' team" received the highest mean rank at 4.6, while Nepalese banking sectors' realization of obligations towards shareholders and stakeholders received the lowest mean rank at 3.38.
- 40% of respondents believe that smaller Board of Directors (BOD) leads to higher bank profitability, while 48% hold that board independence positively impacts profitability.
- 44% of respondents agree that more board meetings correlate with higher bank profitability. They also concur that better corporate governance results in higher Return on Equity (ROE) and lower non-performing loans, indicating greater profitability.

- Mean respondent views suggest agreement regarding corporate governance variables such as board independence, BOD size, and the number of BOD meetings influencing profitability. Respondents perceive ROE as slightly more significant than Return on Assets (ROA) in terms of profitability and agree that lower non-performing loans indicate higher bank profitability.
- There is a significant correlation between independent variables (BOD size, BOD independence, number of BOD meetings), implying acceptance of H1 and rejection of H0.
- According to respondents, inequitable treatment of minority shareholders and inadequate rules and regulations are primary corporate governance concerns within Nepalese banking sectors.
- Other significant issues include the recruitment of incompetent family members in family-owned banks, absence of organizational policies, poor transparency in disclosures, lack of professional management, and inappropriate regulations.
- Return on Assets (ROA) indicates optimal asset utilization by selected banks, with a standard deviation suggesting a 23.28% risk.
- Return on Equity (ROE) has a mean ratio of 15.18%, with a standard deviation of 2.07%.
- The Weighted Average Interest Rate Spread is 4.18%, with an interest rate gap deviation of 0.29%.
- Credit-to-Total Deposit (CD) ratio ranges from 73.78% to 82.30%, with a deviation of 3.67%.
- Non-Performing Loan (NPL) as a percentage of total loans has an average of 1.15%, with a deviation of 0.21%.
- While some correlations suggest relationships between variables, statistical significance is not always met, indicating further analysis may be warranted.
- Regression analysis suggests significant relationships between ROA and factors such as interest rate spread, bank size, and non-performing loans. Similarly, ROE is influenced by factors like interest rate spread, bank size, and non-performing loans, although statistical significance varies.

- These findings underscore the intricate interplay between corporate governance practices, financial performance, and regulatory dynamics in the Nepalese banking sector.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Corporate governance pertains to the framework outlining the roles and obligations of different stakeholders within a company, which includes boards, executives, shareholders, and other relevant parties. It encompasses a spectrum of processes, traditions, regulations, policies, and institutions dictating the direction, management, and oversight of a corporation. At its core, corporate governance emphasizes principles of responsibility and fiduciary duty, aiming to promote ethical behavior and protect the interests of shareholders. Effective corporate governance practices are vital for cultivating investor trust, encouraging competitiveness, and fostering economic advancement. Boards of directors typically assume a pivotal role in corporate governance, overseeing strategic planning, policy development, executive selections, and ensuring organizational transparency.

The importance of good corporate governance cannot be overstated in achieving corporate success and sustainable economic development. Effective governance practices bolster investor trust, reduce capital costs, support the efficient functioning of financial markets, and attract stable financing sources. They also contribute to better decision-making processes within companies, facilitating growth and investor attraction. Robust governance frameworks enhance internal controls, fostering accountability and enhancing profitability. Ultimately, good corporate governance entails transparent, efficient, and equitable decision-making systems anchored in strong management-staff relationships, robust human resource practices, and clear legal frameworks.

Profitability in banking reflects a bank's ability to utilize its resources effectively to maximize net profits, serving as a gauge of asset deployment efficiency and managerial prowess. This thesis seeks to assess the financial standing of selected banks, focusing on primary data collection. Surveys were conducted with 50 respondents from sampled banks, including MBL, EBL, NABIL, GBIME, and LSBL. Their insights shed light on

various aspects of corporate governance and performance within the Nepalese private banking sector.

5.2 Conclusion

The study on corporate governance and performance of commercial private banks in Nepal examined key variables such as profitability (ROE and ROA) in relation to independent variables like interest rate spread, C-D ratio, and NPL to TL. Findings suggested that while there is no significant relationship between certain variables such as ROA and interest rate spread or C-D ratio, others like board size, board independence, and number of board meetings showed significant correlations with bank profitability. These results underscore the importance of robust corporate governance practices in driving financial performance.

Additionally, insights from respondents highlighted priorities in corporate governance, with shareholders' protection being the top concern, followed by professional management and timely disclosure. The study revealed a consensus among respondents regarding the negative correlation between board size and bank profitability, and the positive correlation between board independence and profitability. Moreover, the analysis showed that a lower level of non-performing loans is associated with higher bank profitability.

Furthermore, the regression analysis provided valuable insights into the impact of various factors on both ROA and ROE. Notably, the results indicated that interest rate spread has a significant positive effect on ROA, while the size of banks has a negative influence on both ROA and ROE. Similarly, C-D ratios showed a negative relationship with ROE. Conversely, NPL to TL exhibited a positive impact on both ROA and ROE.

This study delves into the nexus between corporate governance dynamics and the financial performance of commercial private banks in Nepal. By scrutinizing pivotal variables including board size, board independence, number of board meetings, interest rate spread, C-D ratio, and NPL to TL, it underscores the pivotal role of robust corporate governance frameworks in bolstering bank profitability. Results indicate that parameters such as board size and non-performing loans exert a detrimental influence on bank profitability, whereas board independence and the frequency of board meetings exhibit a

positive association. Furthermore, the research highlights the imperative of prioritizing shareholders' protection, professional management, and transparent disclosure practices within corporate governance paradigms to optimize bank performance.

It is concluded that the critical role of corporate governance in shaping the financial performance of commercial private banks in Nepal. By emphasizing factors such as board structure, independence, and effective risk management practices, banks can enhance their profitability and contribute to the overall stability and growth of the banking sector.

5.3 Recommendations

Based on the conclusions drawn from the study, several recommendations have been proposed. It has been observed that Nepalese banks often exhibit weaknesses in professional management and transparent disclosure practices. Hence, it is advised that banks focus on enhancing their professional management structures and transparency in disclosures. This can be achieved through measures such as improving the timeliness of financial reporting, establishing robust internal audit and control systems, fostering a culture of professionalism, and cultivating conducive working environment. Additionally, it is imperative for banks to prioritize the equitable treatment of minority shareholders, thereby fostering better relations and addressing their concerns during annual general meetings. Furthermore, it is recommended for the banking sector to maintain a balanced ratio of executive and non-executive directors, while also providing opportunities for growth and development to employees across all hierarchical levels, from lower-level to middle-level managers.

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QUESTIONNAIRE
CORPORATE GOVERNANCE AND PERFORMANCE OF
PRIVATE SECTOR COMMERCIAL BANKS IN NEPAL

1. What is your Gender?
 - a. Male
 - b. Female
2. In which age group do you lie?
 - c. Below 30 Years
 - d. 30-40 years
 - e. Above 40 Years
3. What is your academic qualification?
 - a. Undergraduate
 - b. Graduate
 - c. Master
4. Please mention your Positions or Responsibility:
 - a. Directors
 - b. Manager
 - c. Assistant Manager
 - d. Officer
 - e. Charter Accountant
 - f. Others
5. How long is your Professional experience ? (in year)
 - a. Below 5 years
 - b. 5 to10 years
 - c. Above 10 years
6. Are you familiar with the concept of corporate governance? How far?
 - b. Very little
 - c. I am familiar
 - d. I can understand
 - e. I am expert in this area

f. Nothing

7. What is corporate governance in your opinion?

- Professional management Timely financial disclosure
 Ethical business Shareholders protection
 Following government rules All of the above

8. What is the most important among following issues of corporate governance in Nepalese banking sector?

- Following rules and regulations of
-Government -NRB directives -Professional bodies
 Professional management
-BoD -Employee -Ethical business
 Protection of shareholders right
-Shareholder' protection -Minority shareholder's issues
 Accounting disclosure
-Timely AGM -Accounting transparency

9. Which of the following aspects are important to make better corporate governance status in Nepalese banking sector?

Assign 1 for most important, 2 for second ...and 7 to the least important.

- Professional management Timely financial disclosure
 Ethical business Shareholder's protection
 Following government rules Timely held AGM
 Relationship of Management with minority shareholder

10. Do you agree Nepalese banking sector has relatively clear mission statements?

a) Strongly disagree b) Disagree c) Neutral d) Agree e) Strongly agree

11. What is average situation in Nepalese *banking sector* in the following issues?

Do you generally agree in the following statements? Select YES or NO

Separation of roles of chairman and CEO YES NO

Majority of directors are non-executives. YES NO

Significant numbers of institutional investors are there YES NO

Significant number of directors are selected by outsiders YES NO

I experienced good shareholders' right for voting YES NO

- I observed good reporting and information system YES NO
- Timely performance reports reviewed YES NO
- I am satisfied in internal auditing and control systems YES NO
- Professional management systems YES NO
- Ethical business YES NO
- Timely financial audit YES NO
- Adequate financial disclosures YES NO
- Good Legal Audit system YES NO
- Good organizational culture YES NO
- Good relationship of Management with shareholders YES NO
- Good working environment YES NO
- Growth enhancement opportunities to employees YES NO

12. To what some extent do you agree in the following statements?

		Strongly Disagree	Disagree	(Neither Agree Nor Disagree)	Agree	Strongly Agree
a.	Board size is negatively related to Profitability of bank	1	2	3	4	5
b.	BoD Independent is positively related to bank's Profitability.	1	2	3	4	5
c.	Number of Board meeting is positively related to bank's Profitability.	1	2	3	4	5
d.	Return on equity better if better the corporate governance	1	2	3	4	5
e.	Return on assets is higher if better the corporate governance	1	2	3	4	5
f.	Non- performing loan is decreases because of the better corporate governance.	1	2	3	4	5

13. Which is the most important tool for corporate governance in order to increase bank's profitability?

- a) ROE (Return on equity)
- b) Return on Assets (ROA)
- c) Non-Performing Loan (NPL)

14. What are the problems in Corporate Governance in Nepalese banking sector which leads to decrease bank's performance/.profitability?

.....

.....

.....

.....

15 Following issues are related to corporate governance system in Nepalese banking sector. Please read each of the following statement and circle at the appropriate given alternative number that comes very close to your opinion.		Strongly Disagree	Disagree	Neutral (Neither Agree Nor Disagree)	Agree	Strongly Agree
a.	Managers should be from professionals; not from the investors team	1	2	3	4	5
b.	Nepalese banking should cope with the changing legal environment	1	2	3	4	5
c.	Commercial banks should maintain fair accounting system and disclose financial reports timely	1	2	3	4	5
d.	Nepalese banking sector have realization of obligation towards shareholders and other stakeholders	1	2	3	4	5
e.	Good corporate governance positively affect the company 's performance	1	2	3	4	5
f.	AGM should be held within stipulated time after completing fiscal year	1	2	3	4	5

.....

Researcher

APPENDIX

Everest Bank Limited					
ROE	ROA	Total Assets(Size)	Interest	CD ratio	NPL to TL
10.88	1.59	113.89	3.74	70.49	0.38
11.30	1.83	116.95	4.32	65.38	0.25
16.39	1.97	144.81	4.48	82.66	0.2
17.41	1.94	170.08	4.19	81.96	0.16
13.53	1.42	198.07	3.51	79.72	0.22
Total	8.75	743.8	20.24	380.21	1.21

NABIL

ROE	ROA	Total Assets	Interest	CD ratio	NPL to TL
25.61	2.32	127.62	3.74	70.49	1.14
22.41	2.69	140.7	4.32	65.38	0.8
20.94	2.61	169.08	4.48	82.66	0.55
17.76	2.11	201.14	4.19	81.96	0.74
13.61	1.58	231.09	3.51	79.72	0.98
Total	11.31	869.63	20.24	380.21	4.21

Laxmi Sunraise

ROE	ROA	Total Assets	Interest	CD Ratio	NPL to TL
20.04	1.62	58.74	4.42	86.82	1.37
14.02	1.65	71.46	4.27	87.28	1.24
13.87	1.78	82.78	4.15	86.65	1.03
14.32	1.80	94.61	4.44	93.81	1.86
10.16	1.17	116.29	4.37	88.51	1.96

GBIME

ROE	ROA	Total Assets	Interest	CD Ratio	NPL to TL
20.04	1.57	87.7	4.52	77.52	1.89
14.02	1.45	116.59	3.36	75.54	1.6
13.87	1.88	128.84	4.86	75.47	0.77
14.32	1.33	151.65	4.47	75.57	0.55
11.76	1.31	166.85	4.82	76.28	1.76

Machhapuchre

ROE	ROA	Total Assets	Interest	CD Ratio	NPL to TL
11.27	1.02	90.23	4.14	78.76	1.29
15.07	1.6	89.19	3	75.34	3.04
11.78	1.5	86.33	4.98	76.3	1.54
14.35	1.97	86.16	4.4	75.8	2.28
10.23	1.33	82.89	3.81	87.25	1.04

ROA	ROA	ROA	ROA	ROA	Average ROA
1.59	2.32	1.62	1.57	1.02	1.624
1.83	2.69	1.65	1.45	1.6	1.844
1.97	2.61	1.78	1.88	1.5	1.948
1.94	2.11	1.80	1.33	1.97	1.83
1.42	1.58	1.17	1.31	1.33	1.362

ROE	ROE	ROE	ROE	ROE	Average ROE
10.88	25.61	20.04	20.04	11.27	17.57
11.30	22.41	14.02	14.02	15.07	15.36
16.39	20.94	13.87	13.87	11.78	15.37
17.41	17.76	14.32	14.32	14.35	15.63
13.53	13.61	10.16	11.76	10.23	11.86

Total Assets(SiZe)	Total Assets	Total Assets(SiZe)	Total Assets(SiZe)	Total Assets(SiZe)	Average Size
113.89	127.62	58.74	87.7	90.23	95.636
116.95	140.7	71.46	116.59	89.19	106.978
144.81	169.08	82.78	128.84	86.33	122.368
170.08	201.14	94.61	151.65	86.16	140.728
198.07	231.09	116.29	166.85	82.89	159.038

Interest	Interest	Interest	Interest	Interest	Average Int
3.74	3.74	4.42	4.52	4.14	4.11
4.32	4.32	4.27	3.36	3	3.85
4.48	4.48	4.15	4.86	4.98	4.59
4.19	4.19	4.44	4.47	4.4	4.34
3.51	3.51	4.37	4.82	3.81	4.00

CD ratio	CD ratio	CD Ratio	CD Ratio	CD Ratio	Average CD
70.49	70.49	86.82	77.52	78.76	76.816
65.38	65.38	87.28	75.54	75.34	73.784
82.66	82.66	86.65	75.47	76.3	80.748
81.96	81.96	93.81	75.57	75.8	81.82
79.72	79.72	88.51	76.28	87.25	82.296

NPL to TL	NPL to TL	NPL to TL	NPL to TL	NPL to TL	Average NPL to TL
0.38	1.14	1.37	1.89	1.29	1.214
0.25	0.8	1.24	1.6	3.04	1.386
0.2	0.55	1.03	0.77	1.54	0.818
0.16	0.74	1.86	0.55	2.28	1.118
0.22	0.98	1.96	1.76	1.04	1.192

CORPORATE GOVERNANCE FACTORS AND THEIR IMPACT O...

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CHAPTER-I INTRODUCTION 1.1 Background of the study Nepalese

enterprises must synchronize with worldwide patterns and function systematically, integrating efficient corporate systems. Sound corporate governance principles are paramount, particularly as firms expand. While the Companies Act establishes the basic corporate structure, Nepal's corporate realm must emphasize and advance superior governance standards. Vital components such as discipline, transparency, autonomy, responsibility, equity, and societal commitment are indispensable. Augmenting the market appeal of products and services, refining leadership, and showcasing transparency and societal responsibility are equally crucial. Despite enduring political instability and inconsistent governance, the private sector has significantly contributed to Nepal's progress across various sectors. Grassroots initiatives in education, media, industry, tourism, and banking have played a pivotal role in fostering the country's development. This research seeks to examine the governance landscape within corporate entities, with a specific focus on the banking industry. Given their role as custodians of public funds, banks must maintain rigorous discipline throughout their governance structure, encompassing the board, management, and staff, to uphold customer trust and safeguard deposits. Effective communication and collaboration among stakeholders are paramount. Bank personnel should exhibit strong moral values and be accountable to clients, the institution, and the nation. Those involved in financial matters must prioritize confidentiality, integrity, and discipline consistently. Nepal is grappling with chaos and instability, particularly evident in government bodies teetering on the edge of collapse due to ineffective governance and excessive politicization. Despite various training initiatives and support from donors, the adoption of good governance practices within government institutions remains elusive. Conversely, privately-run establishments like schools, banks, hospitals, and industries have shown better operational stability. Nevertheless, these entities encounter challenges in fully embracing the fundamental tenets of corporate governance, contributing to a notable

communication gap between boards **and management** and **resulting in** suboptimal **governance** standards. This **study** focuses **on the**

governance practices within banks in Nepal, with a specific emphasis on A Class Commercial Banks. Nepal Rastra Bank classifies banks and financial institutions into five categories, ranging from commercial banks to microfinance development banks and cooperatives. Despite the abundance of financial institutions relative to the economy's size, grassroots initiatives in sectors such as tourism, education, and media have played a role in fostering the sustainable growth of these institutions. Against this backdrop, the research aims to evaluate the efficacy of corporate governance, particularly within the A Class Commercial Banks in Nepal. Corporate