

Chapter-I

Introduction

1.1 Introduction/Background

“Corporate Governance involves a set of relationships between a company’s management, its Board, its Shareholders and other Stakeholders. Corporate Governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good Corporate Governance should provide proper incentives for the Board and Management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring; thereby encouraging firms to use resources more efficiently.” Corporate Governance is the system through which a company is directed and controlled. The system consists of checks and balances on, oversight of, and appropriate input into, the management of the company, which is conducted by its senior executives-Corporate Governance deals with the ways in which suppliers of finance is the corporation assure themselves of getting a return on their investment. It answers how the providers of finance get managers to return some of the profit to them.

Corporate Governance refers to the structures and processes for the direction and control of companies. Corporate Governance consumes the relationship among the Management, Board of Directors, Controlling Shareholders, and Minority Shareholders. Good Corporate Governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. Corporate Governance thus provides the structure through which the company objectives are set, and the means of attaining those objectives and

monitoring performance. The legal system, accounting standards, labour policies and pattern of equity holding have a strong bearing on Corporate Governance. It includes ownership structure, shareholders control and credit monitoring, rules and procedures for decisions making.

Corporate Governance mechanisms are ways to deal with the agency problems between controlling and minority shareholders. Corporate Governance mechanism aims to ensure that minority shareholder's rights are not exploited, manager's rights are not exploited, manager's actions are monitored and poorly performing managers are replaced. The financiers provide the fund to the managers on the condition that they retain all the residual control rights. Corporate Governance thus answers how the suppliers of finance manage to return some of the profit to them; Corporate Governance is a field of economics that investigate how to secure efficient management of corporations by the use of design and legislations. This is often limited to the questions of improving financial performance. Adherence to good Corporate Governance practices will help to improve the confidence of domestic investors, reduce more stable source of financing. The poor governance practices including inadequate disclosure, lack of independent oversight and weak minority shareholders tend to discourage investment and weaken incentives for efficient management. Advertising the issues of Corporate Governance, while improving the business environment generally is fundamental in winning the investor's confidence for achieving economic stability and growth.

Corporate Governance has succeeded in attracting a good deal of public interest in recent years because of its apparent importance for the economic health of any countries. Corporate Governance also involves managing the linkage of an enterprise or firm with government and society. To be successful, corporations need good operating environment and stable and market friendly regulations. Corporate Governance ensures that company

has good system which allows sufficient freedom to the board of directors and executives to take decisions for the progress of the company. The main constituents of Corporate Governance are ethics, investor's protection, social responsibilities, transparency and full disclosures in annual report and financial statements. Corporate Governance extends beyond corporate laws. It is the basic responsibility of the board of directors to observe the affairs of the company for the benefit of its shareholders. It is the primary responsibility of the audit committee to enable the board of director's to discharge its responsibilities so far as the financial reporting is concerned.

Corporate Governance refers to the blend of laws and regulations and appropriate voluntary private sector practices which enables the corporations to attract and retain financial and human capital, perform efficiently, thereby perpetuate it by generating long term economic value fir its shareholders and society as a whole. The principal characteristics of effective Corporate Governance are: transparency, protection and enforce ability of rights of all shareholders and directors capable of independently hiring management, monitoring management's performance and integrity and replacing management when necessary.

The systematic enforcement of laws and regulations has created a culture and the management ethic of firm, spurring them to improve as a means of attracting human and financial resources on the best possible way. This continuous process of change and adoption has accelerated with the increasing diversity and complexity of shareholders. Globalization too, is forcing many companies to top into international financial markets and to face greater competitions, these things have lead to restructuring and a greater role of managers and acquiescing and to expand market for corporate control.

Good Corporate Governance stands upon the basic foundation of professional management of the company, absence of owner's interference

in the day to day working of the company, adequate financial disclosure and self compliances of various rules and regulations binding the company. Corporate Governance is about promoting corporate fairness, transparency and accountability. These are the basic elements of Corporate Governance.

Corporate Governance is an important requirement for overall market confidence, efficiency of international capital allocation, renewal of country's industrial base and ultimately nation's overall wealth and welfare. Sound Corporate Governance is important to attract long term patient foreign capital market by attracting social investors, individual and institutional.

When we talk about the Corporate Governance the concept of Board of Directors automatically embraces the subject. Corporate Governance encompasses the entire mechanism of the functioning of a company and attempts to put in place a system of check and balance between the shareholders, directors and management just as industry seeks transparency in government policies and procedures, so Corporate Governance is seen as transparency in the corporate sector. BODs are in the centre of Corporate Governance system. The overriding responsibility of the board is to ensure long term survival of the company and to provide oversight of management.

Corporate Governance practices are blend of external and self regulation. The foundation of good Corporate Governance rests on trust and confidence between corporate management and investors in one hand, BODs and regulations on the other. The question of responsibilities of BODs, their performance and ability to bring the misbehaving directors to law has become significant issue under the existing legal framework. The BOD is expected to counter balance the management and make sure that the company and minority shareholders are not subjected to losses. The non-executive directors have a judiciary role in the specialized areas of information provided by management. It implies that poor company

performance was balanced on the internal structure, managers or owners of the companies.

Corporate Governance is concerned with holding the balance between economic and social goal and individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible to interests of individuals, corporations and society.

Since the early 1990's no fewer than 50 national or sub national commission and study group have been formed all over the globe to examine various aspects of Corporate Governance practices and to issue recommendations for reforms to adopt stringent disclosure requirements, better education of the responsibilities of directors and enhanced role of professional and stronger legal protection for minority investors. Most of advanced market economics have solved the problems of Corporate Governance at least reasonably well in that they ensured the flows of enormous amount of capital to firms and actual repartition of profits to the providers of finances. This does not imply that they have solved Corporate Governance problems perfectly or that the corporate mechanisms cannot be imported.

With the internationalizations of cross boarder's portfolios and financial crises that have occurred in many parts of the world, it is perhaps not surprising that those institutional investors, in particular increasingly look more carefully at the Corporate Governance of companies. After all Corporate Governance goes hand in hand with increased transparency and accountability and leads to a better and more stable financial markets.

Corporate Governance is concerned with many factors of a business and how that business is managed. In recent years there has been an increasing

awareness of socially responsible investments (SRI) issues in many countries. SRI involves considering the ethical, social and environmental performance of companies. Term ethical investment is often used interchangeably with the term SRI. SRI covers areas such as genetic engineering, the environment, employment conditions and human rights. Recent cases of companies highlighted for not being socially responsible, include those which have used child labour in the manufacturing of their cloths overseas and retailers who sell carpet which have been made by small children who are exalted by long working hours for little. This is a good example of decreasing the trade of carpet in international market.

Corporate Governance has to do with the process by which corporations have impacts on society and the ways in which corporate managers are responsible to owners. Governance is not management; it creates the framework in which management takes place. Informed and motivated owners elect directors, who in turn, select the chief investment officer. Governance rules are apt to be rational and not linear, they are not static, and they are dynamic. Weak Corporate Governance has frequently been cited as one of the causes if the ease Asian financial crises if 1997 to 1998. East Asian crises show that country specific measures of Corporate Governance perform better that standard macro economic variable at explaining the extent of currency depreciation and stock market decline of emerging markets during the crises.

The company act provides the basic corporate framework when the company goes public and becomes publicly traded and securities exchange act covers their governance quite a few elements of Corporate Governance have been in the form of mandatory codes. The inadequacy, duplication and conflict for these laws are likely to defer good governance practices. Another important concern is of poor compliance in the country's socio cultural setting. It

should be motivating rather compulsion for the corporate sector to accept and adopt the Corporate Governance framework.

Corporate Governance is primarily the responsibility of the private sector. But government and regulators are also a distinct responsibility in creating the legal and regulatory environment in which efficient, credible and adaptable Corporate Governance practices can flourish. In addition, it is more and more accepted that the corporate objectives of maximizing shareholder's value require not only superior competitive performance, but also responsible to the demand and expectations of employees. Local constituencies and other stakeholders, Corporate Governance is about bringing a change in the thinking process, how business is conducted and operated from this perspective, there is need to study about Corporate Governance in Nepal.

1.1.1 Historical Overview

Good Corporate Governance is basically ensuring that the management meets its obligations, towards the shareholders, stakeholders, creditors, employees, consumers, government and the society. Actually, what was "social responsibility of business" in the old days is now dubbed as "Corporate Governance".

Corporate Governance has evolved over centuries in response to corporate failure or systematic crises; the first well documented failure of governance was the south sea bubble in the 1700's, which revolutionized business laws and practices in England. Similarly much of the securities law in the US was put in place following the stock market crises of 1929. There have been no shortage of other crises, such as secondary banking crises of 1970,s in the UK and the US saving and loan debacle of the 1980's. In addition to crises of well known company failure, the Maxwell group of newspaper, collapse

of the credit and Commerce International, a Barring Bank, each crises or major corporate failure, often a result of incompetence. In this process of continuous change, developed countries have established a complex mosaic of laws, regulations, institutions and implementation capacity in the government and private sector.

The sudden concerns for good Corporate Governance all over the world seem to have come about with the appointment of the Cadbury's committee in the UK (1991-1995) to look into the various aspects of Corporate Governance, which was supplemented by the Green Bury report on directors remuneration in 1995, and the preliminary and final Hample Reports on Corporate Governance in 1997 and 1998 the focus of these reports in on accountability.

The recommendations of the Cadbury's committee resulted in the creation of the best practices, which is divided into four sections:

-) The role of BODs, their duties and compositions.
-) The role of non-executive directors.
-) The remuneration of executive directors.
-) The financial control

It would be accurate to say that Corporate Governance was relatively unknown phrase for most of the managers in Asia until the Thai Bhat spun out of control in July 1997, and started the financial crises through out the region. No doubt there were occasional international seminars on subject where a handful of activists made powerful, often emotional cases for greater corporate transparency, disclosure and protection of minority rights. Some enlightened managers and policy makers had read the Cadbury's committee's report and believed in the desirability of having better boards with more independent directors. However, in the main, Corporate

Governance was generally unheard of and considered an alien accidental fad that was ill suited to assign values and time-tasted ways if doing business.

Superficially, south east and east Asian corporations, banks, stock markets and government seem to have every reason to be unconcerned about Corporate Governance from the mid – 1980's right up to 1996, the region as a whole had consistently clocked extremely impressive growth rates-among the highest in the world. The countries followed prudent fiscal policies. In deed most of them notched budget surpluses, and none that were crippled by the Asian contagion ranked up deficits like the over seen in Latin America, Turkey, India or even some of the western European countries, most enjoys a booming export trade. These countries had high savings as well as investment rates, and relatively good infrastructure. Banks as well as foreign and domestic investors bent over backwards to offer all manners of debt and equity. Sure, many of the conglomerate were heavily leveraged with short term dollar dominated debt, and were riddled with complex cross-holdings. But, there were projects to be had, profit to be made, and so long as the boom continued, debts would have be paid, stock markets were booming like never before, giving equity investors handsome capital gains. The system worked like a well cited machine. There was absolutely no felt need to impose concepts like better accounting practices, grater disclosure, and independent board oversight.

The crises of 1997-98 changed all that. This was no classical Latin American debt crises. Here was fiscally responsible healthy, rapidly growing, export driven, economy that went into disastrous financial crises. Slowly companies, banks, governments as well as international multilateral institutions began to understand that sever structural flaws in the form of micro-economic financial collapse. It was then realized that corporate must have keen eyes on financial Institutions and capital market, the design of corporate laws, bankruptcy procedures and practices of the structures of

ownership and crony capitalization of stock market practices of poor bonds of directors with scant fiduciary responsibilities of disclosures and transparency and inadequate accounting and auditing.

When at first Corporate Governance started becoming a buzz word in the early to mid 90's in Nepal, it was popularly understood as the system by which companies were to be directed and controlled. As is well known, the impact of globalization shaped and forced the various issues pertaining to Corporate Governance in Nepal to take an international flavor, and as of today some of the Nepalese banking corporate sector also voluntarily follows the guidelines of many world wide and regional bodies which are actively promoting Corporate Governance globally, regionally and in individual countries, in addition to the various guidelines prevailing in Nepal.

At this stage, it is worthy to note that the global Corporate Governance forum has, as its mission the objective of helping countries improve the standards of governance for their corporations by fostering the spirit of enterprise and accountability, promoting fairness, transparency and responsibility. In that light, it can be seen that good Corporate Governance today is desired outcome of international concern for corporations and countries all over the world, since good Corporate Governance would undoubtedly contribute immensely to economic development. The objective is not to shackle corporations rather to balance the spirit of the enterprises with greater accountability.

1.1.2 The Importance of the Financial Sector for Development

A strong, well-functioning financial sector is crucial for any economy to be emerging market, or even developing. It is essential for healthy sustained growth. As an economy grows and matures, its financial sector must grow

with it. It must be able to meet the increasingly sophisticated demands that are placed on it.

As economies grow and diversify, their banking sectors need to keep up with the expanding agricultural and manufacturing sectors, and the development of services sectors. Decisions as to which activities to be financed and which not are crucial for rapid growth. Growing economic complexity is, of course, an inevitable consequence of growth and provides new challenges that must be met. This complexity means that the benefits of efficient credit allocation rise. That efficient credit allocation is financing investments where the payoff is highest. But it also means that the challenges for those assessing alternative loan applicants mount. They must develop means of allocating credit among competing needs. They must learn to assess business plans and identify and manage risk. Successive banking crises in the 19th and 20th century served to underline the need for a well functioning financial sector. Financial crises interrupt growth, or at least result in growth rates below potential, and their impact on the poor is well recognized. And governments and banks learned the importance of financial stability, and sound risk management. As Western economies developed, so, too, have their financial systems.

The earlier experience in the mature economies should have given the newly industrializing countries of the twentieth century two important advantages. First, the contribution that a well-run financial system could make to economic development was more clearly, if still imperfectly, understood. And second, these rapidly growing economies should have been able to take advantage of sophisticated sources of finance available in the industrial economies.

Yet there is plenty of evidence that government-directed credit does not achieve the intended results; it leads to a misallocation of resources, it reduces the overall return on capital and therefore has a dampening effect on

growth. The more sophisticated an economy becomes, the more harm that government rationing of credit can inflict. And the poorer the country, the greater the importance is that scarce resources are to be well invested.

The Asian financial crisis of 1997-98 underlined the risks to economic stability and growth that a weak or vulnerable financial sector could pose. Korea is a particularly striking example; growth had been driven by exports since the 1960s, but had in part been fuelled by directed credit. To begin with the rate of return on capital was high; and since credit was directed mainly to exports, all went well. But the rate of return on capital subsequently declined to a negative real rate of return in the 1990s and there was a brake on economic growth. And significant contingent liabilities had been built up because of mis-matched exposures as a result of dollar borrowing because people had assumed the exchange rate would remain stable and had looked elsewhere for attractive borrowing opportunities. Once the financial markets recognized that the situation had become unsustainable, the crisis was inevitable.

The Japanese financial sector also experienced problems in the 1990s, because of the failure to clean up non-performing loans (NPLs) in the banking sector, a problem that had proved difficult to resolve. Non-Performing Loans seriously undermine the health of a country's banking system and can, indeed, threaten the stability of the entire financial sector. They handicap banks because they tie up assets that bring no return and, in many cases, no prospect of a return. And if we want to witness a current case, we need to look no further than the problems facing the Chinese banking system.

The experience of the recent past means that there really is no longer any excuse for overlooking the importance of a sound, well-regulated financial sector, of which the banking system is a crucial part. It is a *sine qua non* for macroeconomic stability and sustained growth. Economies also need well-

developed securities and equity markets. As firms grow in size, diversity and complexity, they need access to credit on the best terms; they also need access to different kinds of finance according to their needs. The ability to raise longer-term finance through equity or securities reduces firms' reliance on short-term bank finance that might make long-term investments vulnerable to shifts in interest rates.

So it is clear that healthy and efficient financial sector is a vital component of economic growth. Putting the necessary measures in place to ensure the banking system is sound, that non-bank financial systems are well-managed, and that risk in the system is clearly identified, might not always be easy in the short-term, but such measures will undoubtedly bring significant rewards in the medium and longer term.

Many of the issues I've mentioned could easily describe Nepal's history; heavy government ownership and intervention with direction of credit and controlled interest rates, high non-performing assets, weak regulation and supervision, and inadequately developed financial markets. Moreover, we are all familiar with the range of other problems that have characterized the sector: weak Corporate Governance, lack of a competitive environment resulting from fragmentation of the system, a poor banking culture, lack of reliable financial information and transparency, and of course ineffective banking services for the rural sector.

That is a daunting agenda before us, made all the more urgent by the competition in financial services that will come from Nepal's membership of the WTO. Moreover, it is being implemented at a very difficult time for the country where the insurgency is imposing an enormous toll on economic activity, which of course has affected banking performance. But a crisis also offers opportunities. The financial sector reforms that are underway in Nepal and the Nepalese authorities should be congratulated for their efforts. The government has committed to reduce its ownership in the financial sector,

controls on interest rates have been removed and directed credit is being phased out. The operations of the two largest banks are being overhauled and, despite some of the misleading information one reads in the press, there is little doubt their performance has improved. The central bank is being modernized. New legislation is in place for the financial sector that is improving managerial and financial governance. The tools for loan recovery have been strengthened. And many of banking organizations are trying to implement sound banking practices. All these reforms in the financial sector are ultimately about better governance. They are about improving the trust between depositors and their banks, and between those being regulated and the regulators. They require a new way of doing business where political or insider interference is eliminated, and there is transparency and accountability in bank operations. Better governance, including improved disclosure, will improve credit decisions which are good for growth and for the safety of depositors' money. And the biggest beneficiaries of better governance will be the poor and they often are the biggest losers from a banking crisis left bereft of their small deposits, and the casualties of cuts in development spending and higher taxation required to finance salvage of the wrecked system.

1.1.3 Importance of Corporate Governance in Financial Sector

This study focuses on the situation of Corporate Governance and different variable related with it to support good Corporate Governance practices in Nepal. Meeting international Standards of Corporate Governance is increasingly a requirement, not an option to attract FDI or portfolio Investments.

For emerging market countries improving Corporate Governance can serve number of important public policy objectives. Good Corporate Governance

reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital and leads to capital market development. Weak Corporate Governance framework reduces investor's confidence level and can discourage outsider's investments. Also as pension fund continues to invest more in equity markets, good Corporate Governance is crucial for preserving retirement savings. Over the past years the importance of Corporate Governance has been highlighted by an increasing body of academic research. Studies have shown that good Corporate Governance have led to significant increase in the economic value addition of firms, higher productivity and lower risks of systematic financial failure for countries.

A survey of institutional investors on "investor's opinion survey on Corporate Governance found that over 80% of investors say that they would pay more for the shares of a well governed company than for the shares of those poorly governed company with comparable financial performance. The importance of good Corporate Governance to share prices can be seen in the result of survey of 310 international executives by the economic intelligence unit (2003, p. 18) that indicates 70% believe that perception of good governance standard have a positive impact on the stock prices and in a related questions, 79% state that negative impact will occur if the perception is poor.

Today, the financial sector is an important constituent of any country's economy. Where the financial sector is developed, the chance of economy being robust is great. This is because it is the financial sector that oils the wheels of almost all the areas of the economy.

In the financial sector, Corporate Governance may be thought of as a philosophy that helps banks to function on the principles and code of best practices so as to attain their cherished goals. Corporate Governance guides banks and financial institutions to move a head in such a manner that they

can give stability to the micro economic conditions of the economy. A weak banking system could destabilize the micro economic condition. Here, the importance of good Corporate Governance comes in to the picture. Good Corporate Governance enables banks to play a vital role in bringing about micro economic stability, which in turn would contribute to economic growth. Banks are the key elements of the financial system of a country. They are the agent of financial intermediation in any economy. They mobilize deposits scattered across a country, offer financing for commercial purposes and financial services to a large number of people, facilitate payments and settlements for various people, provide credit and liquidity during financial crunch and act as a tool for effective transaction of monetary policy of the nation.

Corporate Governance in the banks is important in setting corporate objectives, operating day to day functions, protecting the interests of stakeholders including depositors, carrying on corporate activities in a safe and sound manner and in compliance with applicable laws and regulations. The board of directors and senior management of the bank must ensure they are governing the business affairs of the organization in compliance with the principal of Corporate Governance.

As Nepal begins to focus on the development of private sector, strong Corporate Governance is a key part of increasing economic efficiencies and efficiently utilizing domestic investments to achieve greater economic development. Good Corporate Governance practices will help develop and stimulate better business management, strategic management, and risk management. On the long term this will make Nepalese business more competitive.

In short we can say, in the era of increasing integrated financial market, global corporations and technical progress, Corporate Governance matters to firms because it helps to determine their capacities to attract the financial and

human resources needed for investment, entrepreneurship and competitiveness. It matters for investors, who are looking more to effective management decision making as a means to improve company performance. It matters to governance because the performance of the enterprise sector is key determinant of progress in income and welfare in any country.

1.2 Problem Statement

The subject of Corporate Governance is of enormous importance. Even in advanced market economics, there is a great deal of disagreement on how good or bad the existing governance mechanisms are.

East broke and Fischel (1991) and Romam (1993) make a very optimistic assessments of the United States Corporate Governance, where as Jenses (1989 and 93) believes that it is deeply flawed and that a major move from the current corporate form to much more highly levered organizations. Italian Corporate Governance mechanisms are so undeveloped as to substantially retard and flow of external capital to firm (Barca and Pangans, 1995 p. 35). In less developed countries, including some of the transition economies, Corporate Governance mechanism are practically non-existent.

The developing world has also faced its own Corporate Governance challenges. In Russia, a substantive share of profit of an oil company was exploited by its controlling shareholders, leaving the company in debt to its creditors, employees and state (Magdi et. al, 2000 p.42). In the Czech Republic, thousands of small share-holders lost their investment as tunneling scheme by insiders stripped private companies of their assets. The economic crises in East Asia and other regions have demonstrated how macro economic difficulties can be caused by weak legal and regulatory system, inconstant accounting and auditing standards, poor banking practices, thin and unregulated capital markets, ineffective oversight by corporate board of

directors and little regards for the rights of minority shareholders. The impact has been shouldered by the poor setting back of social and economic gains by as much as a generation in some countries. In recent years, countries realized that good Corporate Governance is a source of competitive advantage and utility to economic and social progress. The kind of Corporate Governance practices exist in Nepalese organizations is yet to be seen.

The agency problem can cause managers to expropriate minority shareholders and creditors, take action that maximize short term return rather than long term returns, make potentially unprofitable investment in order to increase firm size and possible total compensation. Legal protection of investor's right is one of the essential elements of Corporate Governance; concentrated ownership through large share holding, takeover and bank financing is also another universal method of control that helps investors to get their money back (Shiefir and Vishni, 1997 p. 21). Concentrated institution ownership thus could result in institutions.

In the tradition of many south Asian countries many firms in Nepal are family owned. Often in-experienced family members hold positions as managers, accountants and many other senior managerial positions. Companies which are listed on the stock exchange should have professional management and adequate checks and balance in place to protect the interest of un-sophisticated investors to the maximum extent possible. Though there are various studies in the context of developed and big capital markets. Their applicability is yet to be seen in the context of smaller and under developed capital markers. Realizing the importance of Corporate Governance in the financial sector, the government of Nepal has announced a strategy paper in 2000 and NRB has issued certain directives that seeks to address the need for strengthening the elements of sound Corporate Governance in financial institutions of Nepal . In brief this study deals with the following issues.

) Which sector of Nepal has good Corporate Governance being practiced?

-) Would the good Corporate Governance practices enhance the value of a firm?
-) What are the legal provisions for financial institutions of Nepal to promote Corporate Governance practices?
-) Who is more responsible for promoting Corporate Governance practices in financial sector of Nepal?
-) What are the main problems of Corporate Governance in Nepal?
-) Does institutional investor put best effort to promote Corporate Governance practices in the financial sector of Nepal?
-) What are the further prospective of Corporate Governance's practices in Nepalese financial sector?

1.3 Objectives of the study

The major objective of this research study is to examine corporate governance issues and practices in banking and financial institutions of Nepal. The specific issues and objectives of this research study are:

-) To familiarize with the concept and issues of corporate governance.
-) To analyze corporate governance patterns in Nepalese banking and financial sector.
-) To identify the problems of good corporate governance in banking and financial sector.
-) To access existing legal provisions for efficient corporate governance practices in Nepalese financial institutions.
-) To examine the opinion and views of employees and governing bodies of banking and financial sector regarding corporate governance practices in Nepal.

1.4 Significance of the study

Development of corporate sector is instrumental for the economic development of developed and underdeveloped countries and this research will be throwing light on the issues like professionalism, corporate culture, Corporate Governance etc to get financial sector sail smoothly than ever.

This study will be important for strengthening knowledge about Corporate Governance practices and improving their performance as well. This study will at its best possible level reveal the level of existence of the Corporate Governance in financial sector of Nepal.

So, this research study is significant for:

-) Making all employees, managers and other stakeholders of selected financial institutions aware of Corporate Governance and its implications.
-) Revealing the status of Corporate Governance among banking and financing organizations of Nepal.
-) Recognizing the legal and regulatory compliances and controlling body for better practices of Corporate Governance.
-) Identifying those factors which will help organizations and their governing bodies for improving Corporate Governance practices.

1.5 Limitations of the study

Each and every work has its own sort of limitations involved in the process of performing the task. Same way this research also has some limitations which could not be ignored.

-) Corporate governance concerns a broad area as a topic but this research is confined only around the financial sector. So, finding of this research may not be generalized to all sectors.
-) This research uses mainly primary data collected through questionnaires. So, those data present qualitative factors not any quantitative measurements are used.
-) This research is totally based up on the individual opinion of the respondent regarding the problem
-) Since all collected information's are individual opinion, bias may be unavoidable some times.
-) Although sample size is large enough, yet, some sort of statistical sample errors may not be ignored. e.g. sample may not represent the population perfectly which causes problem and generalization of the result or outcome.

1.6 Chapter plan / Organization of the study

Chapter I: INTRODUCTION

This chapter deals with introduction of the study, background, significance of the study, statement of the problem, objective of the study and limitations of the research study.

Chapter II: Literature Review

This chapter is all about review of literature. It includes conceptual framework, review of empirical works, corporate governance and its country wise assessment in banking and financial institution and concluding remarks of the empirical works done in relation to the topic.

Chapter III: Research Methodology

This chapter deals with the model of research design, population, and sample and its selection procedure, data collection procedure and methods and methods of statistical analysis and presentation of data.

Chapter IV: Data presentation and analysis

This chapter is concerned about the presentation and analysis of the collected data in such a manner so as to produce optimum outcome with best possible use of statistical and analytical tools with total findings.

Chapter V: Summary, Conclusion and Recommendation

This final chapter presents summary of the total research and its outcomes along with conclusion and some value able suggestions and recommendation for the further improvement in the area of the research problem.

CHAPTER-II

LITERATURE REVIEW

1.1 Conceptual Frameworks

2.1.1 Types of Governance

2.1.1.1 Internal Corporate Governance

It is concerned with the relationship between management and shareholders, or between corporate insiders and outside stakeholders. Institutional, legal and contractual arrangements of the internal Corporate Governance system include the rights of shareholders and their protection; BOD's role and responsibilities. A well governed corporation needs to balance the roles of their groups of players; Shareholders, BODs and Managers.

2.1.1.2 External Corporate Governance

It is concerned with the relationship between the company and outside suppliers of funds such as creditors, regulators and legal governance system. The important elements in the external governance system include stock market regulation regarding merger, acquisition and take over disclosure and listing rules. In many countries with extensive laws and regulations, Corporate Governance is still poor. In Countries that have a good record of Corporate Governance, companies have gone for beyond the structures of laws.

2.1.2 The Corporations

The non-business corporation is an ancient form, originally used for towns, guilds and colonies in Rome. From the early middle ages, also for Universities, religious orders and other so called benevolent organizations performing civil services and thus subject to government license and oversight. The Spanish company in 1577 and the east India Company in 1601 received history's first recorded business charters of incorporations during the reign of England's queen Elizabeth I. Prior to the concept of corporation, business were organized as proprietorship or partnership.

The US supreme court under chief justice John Marshall made corporations possible legally in the early nineteenth century, Marshall himself defined corporation in the "A corporation is an artificial being, invisible, intangible and existing only through three qualities which the charter of its creation confers upon it, either expressly or as incidental to its very existence (The Most) important are immortality and if the expression may be allowed, individually property by which a perpetual succession of many persons are considered as the same and may act as a single individual; (Colley, et al, 2005 p. 14).

In other words, the corporation is in the law and has standing independent of its owners. Three features have made the corporation attractive, its unlimited life, and the limited liability of the owner and the divisibility of the ownership that permits transfer of ownership interests without disrupting the structure of the organization.

2.1.3 Annual General Meeting

The Annual General Meeting is one of the Corporate Governance instruments that is supported to enable shareholders to hold the directors of a company accountable and therefore to limit the possibility of expropriation

of shareholders by managers. Without protection from expropriation of their investments, shareholders who are not involved in the firm's management would rationally not be prepared to invest in a company (Caport, et al; 2000). However only if Annual General Meeting contributes to an effective monitoring of management decisions, they will play a valuable role in Corporate Governance system.

Annual General Meeting has three principal functions. First is to inform the shareholders about the financial performance of the company as well as about important management decisions. The second is to provide a forum for discussion between directors and shareholders about the past performance and future business policies. The third one is to gain content of the shareholders for decisions that do not lie within the managerial discretion of the BODs.

Monitoring and controlling the professional management of a company through participation in Annual General Meeting consumes time and requires expertise and will therefore only be efficient for the individual investors if the benefit from these activities out-weigh their costs. This becomes less likely when lower the proportion of share held by investor and the shorter the investment horizon of the shareholder and the higher the monitoring cost. Being one of a multitude of shareholders, any attempts to improve the manager's accountability through participation in the Annual General Meeting will lead to costs that have to be borne by the active shareholders, whereas any possible benefits are enjoyed by all shareholders only held a tiny proportion of he votes in the general meeting (Caports, et al;1999 p.36). In this case shareholders need to find ways to co-ordinate the voting behavior of a large number of members of the company in order to influence the outcomes of votes on resolutions in the Annual General Meeting.

2.1.4 Disclosure

The term 'disclosure' refers to the publication of economic information related to business enterprises, quantitative or otherwise, which facilitate the investment decision making. Disclosure is the process through which an entity communicates to the outside world. Prospectus, annual report, financial press release and interim reports are the major means through which company discloses its various information to the perspective users. The information disclosed by a company to its shareholders, members and to the public in accordance with the disclosure requirements of the law is particularly the only tool shareholders and investors have to judge the performance of a company and monitor the activities of the directors and management.

It is also the legal obligation of the companies to make the information disclosure to their shareholders and other users of information. Among various means, corporate annual report has become a significant medium of corporate disclosure. Full and complete disclosure in annual report is getting much public interest these days and the need of full disclosure is irrefutable influences to a great extent the quality of investment decision made by investor (Surendra and Desai 1971 p.52).

If other things remain equal, the investors would prefer to invest in a company that discloses the information fully than in the company that does not. Corporate Governance framework should ensure the full, timely and detailed disclosure of information on all material performance, ownership structure and governance of the corporation. Disclosure includes the information on:

-) Ownership Structure
-) Members of BOD's and management

-) Financial/ operating results
-) Qualitative and quantitative matters concerning employees and other stakeholders in corporation
-) Corporate targets and prospects
-) Auditors report
-) Executives on unusual and complex transactions or derivatives products and level of risk.

Therefore, these things are of cardinal importance, and should be subject to strict enforcement.

2.1.5 Board – CEO Relationship

Any organization will be efficient and higher performing if there is a high level of mutual confidence and trust through out the organization, and especially between the board of directors and CEO (Likert, 1961; Gillies, 1992 p 13). According to Carrer (1990 p 52): “No single relationship in the organization is as important as that between the board and it’s CEO. Probably no single relationship is as easily misconstrued or has such dire political consequences”.

Corporate Governance is not the responsibility of a board alone; and definitely is not the responsibility of a CEO separate from his/her board. It is a solemn partnership; a leadership team (Carrer, 1990 p 32). To pressure the solemnity and integrity of that relationship, it is crucial that each partner has undivided loyalty to the grater entity that they govern.

Table no. 2.1

Management performance

		Poor	Good
Board Performance	Poor	Poor	Uncertain, depends on whether poor board performance will override good management performance
	Good	Initially Uncertain, depending on the nature of management's flaw(s). However after an indeterminate period an effective board will rectify the situation, leading to good management performance after an indeterminate time lag.	Good

If the board is responsible for clearly articulating organizational “End” (mission, vision, values, goals and plans) then the CEO is responsible for seeing that they are achieved on time, within budget and on target . However both organizational and executive performance objective should be mutually pre-determined by both the board and its CEO, so as to ensure that they are realistic, doable, measurable, and not conflicting one with the other (Harvey, 1978 p 72).

2.1.6 Independent Directors

They are non-executive directors in a company. That implies they are neither officer nor employees of the organization. Board needs independent directors to enhance independence and objectivity in board activities. Independent directors are also essential to bring new perspectives from other businesses that may contribute to the formulation of strategic directions. Active board committees controlled by independent directors with relevant exercise are the key elements of effective board. Qualification as an independent director can be different across countries. The key consideration is whether he/she is capable of making sound judgment without much influence from management, controlling shareholders, political or other inappropriate outside interests. Anyone who has a significant familial, financial or professional connection with the bank, its board chair person, controlling shareholders, or executives is usually not considered “Independent”. According to the Brazilian institute of Corporate Governance, a director is independent if he/she:

-) Receives no compensation from company other than director remuneration.
-) Has never been employee of the company (or an affiliate or subsidiary).
-) Has no link to company besides board membership.
-) Is not a close relative of any officer, manager or controlling shareholders.

2.1.7 Agency Problems

In a private owned company, the owner rules the most and controls the decision making process. Flotation changes all that. Going public defuses

ownership among a wide range of shareholders who paradoxically become peripheral figures as far as power and control are concerned.

Control shifts to the hands of executive responsible for the assets of the shareholders. Fundamentally, the role of management is to make decisions that help to maximize the profits for these investors. Shareholders and managers are ostensibly on the same side yet can be striving for markedly different goals. Self interest is a power motivator and it is no difference here. The shareholders inject capital into the company and naturally seek a decent return on this investment. On the other had, the executive will be driven by desires of promotion, higher earnings increased power and influences.

The questions, can these perspective ambitions be fulfilled or can only be succeed at the expenses of others and for the shareholders, favorable returns usually depend on company performance. In contrast, executive ambition will equal investment, investment that risks shareholder's fund.

2.1.8 Investor's Protection

Investors are individuals or organizations that make investments. In other words, investor is that person who postpones the current consumption of income or surplus with an expectation of getting more in future. Investors may be individual or institutional. Investors within the country are known as domestic investors where as investors form aboard are known as the foreign investors. Investors investing in securities can be grouped in to different categories, first type of investors are those who involve in management and the operation of the company and the second type of investors are those who are not involved in management or operation of business and gets published information only.

Protection of investors means safeguarding their principal amount of investment providing the hands on return on a sustainable basis. Due to the tiny portion of shareholding and large number of shareholders in company it is not possible to every owner to engage in management and day to day operation of the business, that's why separate group of shareholders of agent called management is appointed to work on behalf of shareholders made the issue of investors protection more relevant. The most important means of ensuring investors protection is the requirement of full disclosure of information material.

2.1.9 Auditors Perspective

Auditors are an important part of the governance process, and can provide useful information to be considered by those charged with governance responsibilities. In this regards, the international auditing practices committee issued a new international standard in auditing (ISA) that requires auditors, in all audits, to communicate audit matter of governance interest to those charged with these responsibilities. If and entity has not identified people responsible for governance, The ISA requires the audit communications, this opens a significant portal for the advancement of governance in all entities, having their financial statements audited in accordance with the ISA.

Since as auditor focuses primarily on as entity's financial reporting process, an involvement with those who have governance responsibilities can only help to improve the governance process. The auditors can encourage executive management to adopt appropriate accounting systems and internal control, but it is the governance people who can direct executive management. The auditors however because if experience, knowledge and

skill can assist the governance people in the establishment of sound practices and can Provide valuable information and counsel to them.

2.1.10 Business Ethics

Ethics may be approved of if they are good, desirable, rights of obligatory or disapproved if they are bad, wrong, undesirable or evil . Ethics is the science of moral in human conduct. Business ethics consists of those principles and practices that are concerned with moral and good conduct as they are applicable to business situation. Considerable evidence supports the contention that “honesty is the best policy”. This is perhaps another way of saying that good ethics make good business.

There are certain factors up on which the structure of good Corporate Governance can be built. One of the helping tools for the commenting the base of structure is application of ethics in practices followed by a board (Kala, 2000 p 21). Companies perceived to be ethical can recruit and retain best work forces and positive, longer relationship with vendors, consumers, investors and stakeholders. Ethical companies can also develop sufficient collateral and respect such that activist and media pressures are reduced, if not eliminated, there by protecting corporate reputations.

2.2 Theory and literacy of Corporate Governance

2.2.1 The OECD Principles of Corporate Governance

Based on the creed of fairness transparency, accountability and responsibility, the OCED and hoc task force of the business sector Advisory group has identified five basic principles of Corporate Governance. Many

industrial countries have been using these principles in their regulations or voluntary code of best practices on internal Corporate Governance.

The principles are being applied in OECD members and non member countries and the international agencies like World Bank IMF IFC and so on. They are evaluating the national Corporate Governance mechanism at par of the OECD principles. So the OECD principles of Corporate Governance are being most important and have developed 6 steps of discipline as principles as below:

I. Ensure effective Corporate Governance framework:

This is based on the new principles of OECD added from 2004. Previously it has not been contained in 1999 principles. This new principles has focused on the basis to the framework to ensure Corporate Governance. It requires adequate legal framework. The legal aspect of the Corporate Governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The Corporate Governance framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets. The legal and regulatory requirements that affect Corporate Governance practices should be consistent with the rule of law, transparent and enforceability. The division of responsibilities among different authorities should be clearly articulated and ensure that the public interest is served. Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfill their duties in a professional and objective manner. Moreover, their rulings should be timely, transparent and fully explained.

A joint-stock company as a form of organization of economic activities is a powerful driving force. The legal and regulatory environment, in which joint-stock companies operate, has thus key importance for the overall economic performance. Policy-makers are responsible for ensuring that there is an adequately flexible framework that will serve for the needs of companies operating a business under various conditions and that will facilitate the creation of new opportunities for development of values and the most efficient utilization of resources. In order for the policy-makers to successfully bear this responsibility, they must concentrate on the most important economic results. When considering various variants of economic policies, policy-makers must analyze the impact of key variables affecting the functioning of the market, such as the structure of incentives, effectiveness of self-regulatory systems and management of conflicts of interest. Transparent and effective markets ensure discipline in the conduct of market participants and promote their accountability. If there is a need for new laws and decrees in response to market shortcomings and failures, these regulations must be formulated so that they can be enforced and applied in the same manner to all players.

It is typical for the rules of good Corporate Governance that they are interconnected with a great many areas of law and legal regulations, particularly the Commercial Code, the Act on Business Activities on the Capital Market, laws regulating procedures in accounting, audit and insolvency, the Civil Code, the Labor Code and tax laws. Thus, there is a risk that the effects of the above various laws will result in unintended conflicts that could limit and hinder the ability to reach key objectives in the area of Corporate Governance. Therefore, it is important that the policy-makers be aware of this risk and strives to limit it as far as possible. Responsibility for regulation must be entrusted to institutions that can discharge their functions without any conflict of interests and whose decisions are subject to court review.

The number of companies, events concerning them and the volume of disclosed information constantly rise, the resources of these institutions may not be sufficient. Thus, the policy-makers must provide for their adequate financing. The ability of these institutions to ensure qualified experts under competitive conditions will undoubtedly increase the quality of supervision and enforcement of laws and regulations and its independence

II. Rights of shareholders:

As a second steps it has dealt on the rights of shareholders. Shareholders are the owners of the company. They control the company by appointing the board of directors to act as their representatives. Shareholders are eligible to make decisions on any of significant corporate changes. Therefore, the company should encourage shareholders to exercise their rights. Basic shareholders rights are rights to 1) buy, sell, or transfer shares 2) share in the profit of the company 3) obtain relevant and adequate information on the company in a timely manner and on a regular basis 4) participate and vote in the shareholder meetings to elect or remove members of the board, appoint the external auditor, and make decisions on any transactions that affect the company such as dividends payment, amendments to the company's articles of association or the company's bylaws, capital increases or decreases, and the approval of extraordinary transactions, etc. Shareholders should be fully informed of the criteria and procedures governing shareholders meetings. Sufficient information regarding the issues to be decided in each agenda item should be provided in advance of the meeting. Shareholders should be able to query directors both in the meeting and by sending their questions in advance. They should also be allowed to propose an agenda item and vote by proxy. The board of directors must recognize shareholders rights and avoid any actions that violate those rights.

III. Equitable Treatment of Shareholders

Just an equal treatment is important to the shareholders, and we can count it as 3rd steps of the corporate discipline. All shareholders, including those with management positions, non-executive shareholders and foreign shareholders should be treated in an equal way. Minority shareholders whose rights have been violated should be redressed. An important factor of shareholders who invest in a company is that they can trust that the company's board of directors and management use their money appropriately. The board of directors should ensure that all shareholders rights are protected and that they all get fair treatment. The board of directors should ensure that all processes and procedures for shareholders meetings allow equitable treatment of all shareholders. There should be a clear procedure to allow minority shareholders to nominate candidates for director positions. Shareholders who cannot vote in person should be allowed to vote by proxy. The board should set procedures to prevent the use of inside information for abusive self dealing such as insider trading or related party transactions. All directors and executives should be requested to disclose to the board whether they and their related parties have any interest in any transaction or matter directly affecting the company. Directors and executives who have such interests should not participate in the decision making process on such issues.

IV. Role of Stakeholders

Stakeholders are the key actors of any corporate performance. The stakeholders' role is dealt as 4th steps of corporate discipline of corporation. Stakeholders of a company should be treated fairly in accordance with their

legal rights as specified in relevant laws. The board of directors should provide a mechanism to promote cooperation between the company and its stakeholders in order to create wealth, financial stability and sustainability of the firm. Stakeholders in Corporate Governance include, but are not limited to, customers, employees, suppliers, shareholders, investors, creditors, the community the company operates in, society, the government, competitors, external auditors, etc. The board of directors should set a clear policy on fair treatment for each and every stakeholder. The rights of stakeholders that are established by law or through mutual agreements are to be respected. Any actions that can be considered in violation of stakeholders' legal rights should be prohibited. Any violation should be effectively redressed. The board of directors should provide a mechanism that stakeholders can involve in improving the company performance to ensure the firm's sustainability. In order for stakeholders to participate effectively, all relevant information should be disclosed to them. There should be an effective way for stakeholders to communicate to the board any concerns about illegal or unethical practices, incorrect financial reporting, insufficient internal control, etc. The rights of any person who communicates such concerns should be protected. The board of directors should set clear policies on environmental and social issues.

V. Disclosure and Transparency

This is an inevitable step of corporate discipline which can lead the corporation to success. The board of directors should ensure that all important information relevant to the company, both financial and non-financial, is disclosed correctly, accurately, on a timely basis and transparently through easy-to-access channels that are fair and trustworthy. Important company information includes financial reports and non-financial information specified in the regulations of the Securities and Exchange

Commission (SEC) and the Stock Exchange of Thailand (SET) as well as any other relevant information such as the summary of the tasks of the board of directors and its committees during the year, Corporate Governance policy, environmental and social policies and the company's compliance with the above-mentioned policies, etc. The quality of a company's financial reports is vital for shareholders and outsiders to make investment decisions. The board of directors should be confident that all information presented in the financial reports is correct, in accordance with generally accepted accounting principles and standards, and has been audited by an independent external auditor. The chairman of the board and the managing director (MD or CEO) are in the best position to be spokespeople for the company. Nonetheless, the board of directors may appoint another director or executive to act as spokesperson. That person should perform the duty with the due care. In addition, the board of directors should designate a person or a department to perform the "investor relations" function to communicate with outsiders such as shareholders, institutional investors, individual investors, analysts, the related government agencies, etc.

VI. Responsibilities of the Board

Ultimately corporate peace and prosperity upon the role and responsibility of the board and it can be counted as the 6th but important step of corporate discipline. The board of directors plays an important role in Corporate Governance for the best interest of the company. The board is accountable to shareholders and independent of management. The board of directors should have leadership, vision, and independence in making decisions for the best interest of the company and all shareholders. The board should clearly separate its roles and responsibilities from those of management and monitor the company's operations to ensure all activities are conducted in accordance with relevant laws and ethical standards. The structure of the board should

consist of directors with various qualifications, which are skills, experience, and expertise that are useful to the company. Directors should commit to their responsibilities and put all efforts to create a strong board of directors. The director's nomination process should be transparent, without any influence of controlling shareholders or management, and be credible to outsiders. For efficiency and effectiveness, the board of directors should set committees to study and screen special tasks on behalf of the board, especially issues that need unbiased opinions. Committees should have a clear scope of their work, roles and responsibilities as well as the working procedures such as meetings and reporting to the board. All directors should understand their roles and responsibilities and the nature of the company's business. They should be ready to express their ideas independently and always update themselves. Directors should perform their duties in good faith, with due diligence and care, in the best interest of the company and all shareholders. In order for directors to perform their duties, they should receive correct and complete information. They should also commit themselves to their responsibilities and attend all board meetings, except for reasonable excuse. The board of directors should not approve its own remuneration. The process of setting their remuneration should be transparent. Shareholders should approve directors' remuneration. The level and composition of remuneration should be appropriate and high enough to keep qualified directors but not overpaid.

Indeed there are other fundamental disciplines of Corporate Governance as in principles. The principles of social commitment and environment and conflicting interest resolution mechanism as well as other are very important. As a disciplinary mechanism the Corporate Governance required to appropriate distribution of right and responsibilities among the corporate actors. The key corporate actors are the shareholders, directors, CEO, employee, auditors, corporate lawyers, stakeholders, and the society at large. In Nepal the Corporate Governance thought has stimulated from the support

of Asian Development Bank and World Bank from 2002. The World Bank has assessed then company law provision and commented on the legal and regulatory mechanism. Recently new Nepalese Company Act 2006 and the Banking and Financial Institution Act 2006 has come into force and has contained sufficient provision towards Corporate Governance but all the actor's function has not been accepted well and having some others discrepancies and ambiguity on the acts which can hope of descending as good in future.

2.2.2 Five bench marks of excellence in governance

In an article facts, myths and monsters: understanding the principles of good governance written by D Wayne Taylor, has suggested five generic bench marks of good governance

Clearly Articulated Mission and Vision

A Well governed organization has a clearly articulated mission that derives the commitments and work of the governance group and staff, and that serves as the bench mark against which the organization evaluates its achievements and adjusts its behaviors over time this implies that a well governance organization also has a clearly measurable vision, set of goals and objective and or strategic plan that is quantifiable and time specific.

Achievement oriented Culture

A well governed institution or agency is an individual who creates a culture that enables and motivates the achievement of the mission. Mission of a well organized organization is crafted in such a way as to set high expectation for achievements key to this bench mark is a brands selection and evaluation

(using selected quantifiable performance indicators straight out of the mission or vision statement) of a highly competent CEO who will lead by example this achievement oriented culture.

Leadership Partnership

Organizations that demonstrate excellence in governance always have a committed and involved board of directors which vigorously interacts with the CEO and other top level leaders in shared governance. In doing so, these boards also act on a bridge to the ownership and/or larger community to which they are ultimately accountable (American, et, al, 1995 p 34)

Focus on Improvements

High performing organizations with excellent governance shares fourth characteristic a governance, management and operational paradigm focused in continuous improvement. Not only do bench mark organizations continually assess and improve their work processes, but the governing entities of these organizations desire it and even continually assess and improve their own governing process. In this way advancement of their organizations performance (Arving et al, 1995 p 15)

Boards are of workable size

Where the opportunity for leadership is greatest, the job design for leadership is poorest. Boards function best in executing their responsibilities if they are workable size. These boards which excel in their governance duties usually have seen to fifteen members. Boards larger or smaller than that are generally ineffective.

2.2.3 Essentials of effective Corporate Governance

Effective Corporate Governance system ensures that company is managed in a manner so as to increase its value to the shareholders, however with in legal and contractual parameters, and help to achieve the socially efficient and market relevant return to the company. Failures in observing good Corporate Governance may however result in as sub- optimal allocation of resources, highly risky investment, abuses and expropriation by controlling shareholders, financial distress or even bankruptcy.

The basic essentials of Corporate Governance have been identified as transparency, equity and accountability (Narang, 2000 p 45). Transparency is a must for generation and use of information properly. Equity is about protecting legal and contractual rights of the stakeholders and help to set the boundary and parameters of the corporate goals that management is mandated to pursue. Accountability is the key to providing adequate incentives and disciplining management so that it is properly motivating factors influencing quality of governance. The quality of Corporate Governance depends on the following Factors:

Ability of the board

The collective ability in terms of knowledge and skill of board of directors to effectively supervise the executive management determines the effectiveness of the board. A board that does not have members with right specialization and qualification lacks this ability.

Commitment level of individual board members

The quality of a board depends on the commitment of individual members to tasks, which they are expected to perform as board members.

Quality of corporate Reporting

Quality of corporate reporting depends on the contents transparency and time liners of corporate communication with shareholders. This helps the shareholders in making economic decisions and in correctly evaluating the management in its stewardship function.

Participation of the stakeholders in the management

The level of participation of stakeholders determines the no of new ideas generated in optimum utilization of resources and for improving the administrative structures and the process. Therefore an enterprise should encourage and facilitate stake holder's participation.

Adequacy of the process

The process should be such that it should dampen the entrepreneurial spirit of the executive management. BOD's supervise and control efficiently if the process fails to provide the sufficient and timely information to the board, necessary for reviewing plans and performance of the enterprise.

2.2.4 Guidelines on Corporate Governance for banking organizations published by Basel Committee

The Basel committee on banking supervision has issued guidelines to help promote the adoption of sound Corporate Governance practices by banking organizations. This guidance results from a convulsive documents published in November 2005, which elicited a number of helpful comments from banks, industry associations, supervisory authorities and other organizations. “Enhancing Corporate Governance for banking organization is based on eight key principles:

Principle 1.

Board members should be qualified for their positions, have a clear understanding of their roles in Corporate Governance and be able to exercise sound judgments about the affairs of the banks. This includes understanding the bank’s risk profile and approving the overall risk policy and risk management procedures.

Principle 2.

The board of directors should approve and observe the bank’s strategic objectives and corporate values that are communicated through out the banking organizations.

Principle 3.

The board of directors should set and enforce clear lines of responsibilities and accountabilities throughout the organizations.

Principle 4.

The board should ensure that there is appropriate oversight by the senior management consistent with the board policies.

Principle 5.

The board and senior management should effectively utilize the work conducted by the internal audit function, external auditors and internal control functions.

Principle 6.

The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long term objectives and control environment.

Principle 7.

The bank should be governed in a transparent manner.

Principle 8.

The board and senior management should understand the bank's operational structure, including where the bank operation in jurisdictions or through structures that impede transparency.

2.3 Review of empirical works.

2.3.1 Board of directors/ Independent directors

The size of the board has been shown to have a material impact on the quality of Corporate Governance. Several anecdotal accounts support the idea that large boards can be dysfunctional and this view has been confirmed on two broad statistical studies (Yermack, 1996 p 35, Eisenberg, 1998 p 41). Valuation multipliers, such as the price to book ratio, are highest for companies with small boards. Among the largest 500 companies ranked by Forbes, those companies with the highest multipliers had boards that includes eight or fewer people, while companies with a board membership of more than 14 displayed the lowest multipliers, companies with large board experienced lower ROA and operating efficiency merits. Significant changes in the size of the board have a material valuation impact. Companies that announced decreases in board size had an average market adjusted stock return of 2.9% at the announcement while that increased by 2.8% adjusted for the market movement .

The literature is filled with studies that show that in situations requiring a specific board decisions, the outcome is more likely to be beneficial to shareholders when the board consist of a majority of outside independent directors (that is when the board is “outside dominant”). Because the supervision of management is a primary responsibility of boards, studies have focused on the responsiveness of the boards in replacing CEOs . When company performance deteriorates significantly, outside boards are more likely to opt for a clean slate and hire the replacement of CEO from outside the company than promote an internal candidate (Borokhovich, et. al, 1996 p 15; Huson, et. al, 2000 p 28).

Companies tend to make better acquisitions when the board is outside dominated. The discipline of retting acquisition proposals by independent

directors results in actual bids that are viewed more favorably by equity investors. Boards dominated by outsiders tend to bargain more intensively when their companies becomes target of take over bids, resulting in larger stock prices gains for the target shareholders . Board composition is itself affected by financial performance. Companies typically react to deteriorating performance by adding outside directors to the boards. Research shows that independent director's appointment tends to be associated with share price appreciation (Rosenstein, et. al; 1990 p 24).

CEO involvement in the director's nomination process has been shown to have a significant impact on the types of directors that are appointed to boards. When CEOs participate directly in the relation of new board appointees, either by serving on the nominating committee, or when no independent nominating committee exists, companies tend to appoint fewer independent outside directors and more affiliated outside directors with potential conflicts of interests.

Board increases meeting frequency after poor performance. On average, meeting frequency does not lead to a poor performance but is a reaction to deteriorating performance . Research suggests that board should balance the costs and benefits of board meeting frequency and should be willing to increase meeting frequency whenever the situation requires significant board input and supervision.

2.3.2 Audit committee

Early studies examined the relation between audit committee existence and financial reporting quality. Firms that establish an audit committee experienced an increase in their earning response coefficient (Wild, 1996).this result presumably is due to the notion that market participant expect improved financial reporting as one consequences of the formation of

audit committee. MC Mullen (1996 p 16) finds that companies with audit committees are less likely to experience errors, irregularities and other indicators of unreliable financial reporting.

Although studies don't find any direct link between companies performance and audit committee, independence earning, released and to be more informative to equity investors when the audit committee is independent. This result suggests that on average equity investors place greater reliance on earning releases when the audit committee comprises with independent and active audit committee members are more likely to have substantive interactions with chief of internal auditors (Raghunandan, 2001). All of these prior studies suggest that the existence of an audit committee and the independence of such a committee and the board of directors are associated with the quality of an entities financial reporting.

Another stream of literature finds that management's accounting decisions often reflect self-serving behaviors. There are some evidences that managerial self-serving behavior carries over to discretionary accounting disclosure choices (Lewellen, et., al, 1996 p 31; frost, 1997 p 21). Frost finds that distressed UK firms that received first time modified audit future expected performance that are overly optimistic relative to actual outcomes. Cal cello and Nepal (2003) find evidence of significant positive relations between the percentage of affiliated directors on the audit committee and optimistic disclosure for entities experiencing financial distress.

2.3.3 Agency Relationship

Another important issue of Corporate Governance is agency relationship. There are mostly two type of risks associated with agency problems; agency risk and information risk. Agency risk represents the risk that management acting in itself interest would take actions that deviate from value

maximization. The agency problem has been well documented and can cause managers expropriate minority shareholders and creditors, take action that maximizes short term returns than long term returns and make potentially unprofitable investment in order to increase the firm's size and possibly, total compensation (Murphy, 1985 p 23).if governance mechanism reduces agency risk, then firms with stronger governance should be associated with superior bond rating and lower yield.

Information risk is the risk that firm managers have private information that would adversely affect default risk of the loan. Governance mechanism can help reduce information risk by inducing firms to disclose information in a timely manner. In support of this argument Ajinkya, et al; (1999 p 38) documented that financial analysis rating of overall corporate disclosure practices of a sample of firms is positively associated with institutional stock ownership and proportion of the board that is composed of outsiders, while Healy, et al;(1999 p 19) reported that sustained increase in disclosure ratings result in higher level of institutional ownership. Similarly Beasley, (1996) documented a negative association between the proportion of the board that is composed of outsiders and the probability of financial statement fraud. Leak and Smithe (1988 p 42) documented that institutional shareholders are more likely to vote against harmful amendments that reduce share holder's wealth. Agrawal and Mano Delker (1990 p 27) found a positive relationship between institutional ownership and shareholder's wealth.

2.4 Corporate Governance – Country wise Assessment

The overall framework for investor's protection and Corporate Governance has a number of important weaknesses that have hindered capital market development in Nepal (The World Bank, 2005), though the awareness of importance of Corporate Governance is growing. The central bank, Nepal Rastra Bank (NRB) has introduced higher Corporate Governance standards for banks and other financial companies as part of a wider program of financial sector reform. Accounting and auditing standards are being developed and a number of draft laws have been prepared. World depends and accelerate the reform process if passed and implemented (The world bank, 2005) report has suggested increasing the authority of Security Exchange Board (SEBO), privatizing Nepal Stock Exchange (NEPSE), establishing transparent procedures and mandating that all listed companies follow national standards for accounting and auditing. In case if board of directors, it has suggested to increase the development of independent directors and enhance the effectiveness of boards. In the last five years, India has made much more rapid strides in Corporate Governance than most if not all, its Asian counterparts (Goswami, 2003 p 34). It is also certain that the next few years will see an even greater flurry of activities. Indian companies have faced more competition in the second half of 1990, than they did since independence. Competition has forced companies to drastically restructure their ways of doing business. Thus the aggregate financial impact of competition has been positive. The more so for those who went through the pain of restructuring in the relatively early days of liberalization. Economic reforms of the last 11 years however glacial the processes of change have definitely contributed to a great extent in corporations. Foreign investors have steadily raised their demands for better Corporate Governance more transparency and greater disclosure, and given their effort in the secondary market. They account for over 25% of total daily trade. The pressure on Corporate Governance has intensified with the entry of foreign pension fund.

These funds hold on to their investments much longer than mutual funds and their managers are taking even more closely at Corporate Governance before making their investment (Goswami, 2003 p 26). India has a strong financial press which gets stronger with the years. In the last 5 years of the level of disclosure that was inconceivable a decade ago. This has forced companies to become more transparent not just in their financial statements but also in matters relating to internal governance. Indian corporations have appreciated the fact that good Corporate Governance and internationally accepted standards of accounting and disclosure can help them to access the US capital markets. This trend has two major beneficial effects, first, it has shown that good governance pays off, and allows companies to access the world's largest capital market. Second, it has demonstrated that good Corporate Governance and disclosure are not difficult to implement. The world bank (2002) report primarily discusses the current state of public sector financial accountability in Bangladesh and makes recommendations for reform and improvements. It deals in depth with the problems of Controller and Auditor General's office (CAG), internal audit, public account, parliamentary oversight and public enterprises. It also contains a section on private sector accountant and auditors which is of primary concern to Corporate Governance. The supply of accountants is low due to lack of adequate training facilities and lack of sufficient financial support for trainers. Institute of Chartered Accountants of Bangladesh (ICAB) has concentrated on increasing the quality of training and strengthening requirements, but the self-regulation of members of both professional initiatives (ICAB and ICMAB) has been effective. There are three major recommendations for improving private sector accounting.

-) Professional institutes should prepare strategic plans to expand the output of professional accountants and auditors without sacrificing quality.
-) The establishment of a sub-professional accounting qualification.

J Regulatory body of accounting and auditing should introduce a code of ethics and both professional institutes should enforce their codes strictly.

In general the report concludes that the most significant failing in financial accountability in Bangladesh is between national standards and practices. “Laws and regulations exist but are not enforced. At present there are few visible sanctions for wrong doing.” Recommendations focus on creating a cohesive voice for reforms by mobilizing support from benefits of reforms. Including citizen groups, civil society, the business community the donor community and reform –minded government officials. However as a starting point the report recommends greater transparency of the public sector through public dissemination of data, report and information. This recommendation could just as easily applied to corporate sector where public disclosure is one of the cornerstones of good Corporate Governance. In Palestine the ownership and control structure of the family based corporate is such that their main object becomes one of maximizing family control these practices lower external investor protection and contrary to the requirement of capital market development (Cheema, et. al 2003 p 39). However private benefits which results from concentrated control, set strong incentives of operating surpluses. This suggests that more may be a trade off between profit maximization and the development of capital market in Pakistan. It is this structure that the SECP is attempting to regulate through the prescription of a bold code for Corporate Governance. These include a greater role for non executive directors on the board of directors; strengthening minority shareholders rights and improving the audit disclosure mechanism in Pakistan. These steps have laid down a frame work that will help define tomorrow’s Corporate Governance environment. Large scale inflows of funds brought in by institutional investors may help create the necessary carrot for local corporate to bite on. Along side these institutional investors with concentrated control over investment may have the needed ability to discipline local corporate. A survey of Corporate Governance practices in Sri

Lanka has revealed that companies don not actually do what they say. They do in relation to Corporate Governance. In order to address this concern, it is necessary to increase awareness about Corporate Governance practices with in the business communities and to institutionalize a mechanism for the independent assessment of the actual degree of physical compliances with Corporate Governance practices and policies by companies (Carbrall, 2003). The fact that many directors are not conversant with theses practices to be implemented but it seems to be another serious issue that needs attention.

2.5 Corporate Governance in banks and financial institutions

The banking reform committee's report of Bangladesh (1999) observed that there is lack of good Corporate Governance practices in the private banks in spite of their appointing comparatively more efficient executives and using modern technologies. In overall terms, the financial status of private bank is quite unstable, similar to the nationalized banks. Twenty nine percent of private bank's loans were classified. Political considerations were prevalent in the business decisions of the banks. There was also a lack of transparency, accountability and fairness in the private sector banks.

Many directors were found to be disappointing bank funds for their own advantages and neglecting the interest of depositors. It was found that at least 152 directors took an amount of total 13.5 billion which is 20% higher than their investment in those banks (Mahmood, 1999 p 18). In addition to taking out loans in their own names, the directors took loans in the name of fake institutions and were also taking loans in disregards to the regulations of the regulatory bodies many directors were found to be associated with the irregularities in the private banks in the recent years.

At least 36 directors were reported to have been associated with irregularities such as disregarding the bank, company act and circular of the Bangladesh

bank. Many directors took monetary and other benefits apart from being associated with irregular loan.

Instances of disciplinary actions against private banks directors are rare in least developed countries. It is note worthy that statutory and prudential regulations for good Corporate Governance have been circulated in the private banks. However widespread misappropriation by the directors is taking loan and their illegal benefits from the bank is still prevalent. In considering the application for banks license, it was not the qualification and efficiency of the enterprise, but political affiliations that received attention.

In accordance to the banks company laws in Bangladesh bank is best towards with the authority of supervising the banking business. But it is the government which takes the final decisions on this matter by virtue of administrative decisions. This very process is not in favor of politically neutral decision making (Mahmood, 1999 p 23). Reports point that there is a paradox between imposing regulation on private corporations and allowing the private sector to operate freely. It is evident that imposing restrictions on banking activities hinders the freedom of corporate decision making. Enhancement of the exercising authorities of the Bangladesh bank may also lead to more complex bureaucracy for private banks. On the other hand corruption and violation of the regulation cripple the banking sector. It can be seen that restrictions on private banks can be substantially withdrawn in the future once the directors operating in to private sector can nurture a culture of good banking practices.

Management and board in today's organizations face more dramatic demands, challenges and opportunities than ever before in fulfilling their commitment to oversight of stake holders investment. Corporate accountabilities, governance risk mitigation are just a few concerns that pepper the thought of senior management and board o f directors in contemporary organizations. The ensuring of organizational ethics,

efficiencies, economy and effectiveness requires a much broader approach today than even as recently as five years ago. Corporate Governance is the corporation's response to risk. The choice is simple either keep up or get out of playing; "catch up" is no longer an option.

Tsai (2003) analyze the relationship between internal control and effective Corporate Governance by studying five real cases including the collapse of Barings and the fraud of international security corporations, the collapse of Taiwan public listed companies ENRON and the fraud of AB bank.

The analysis suggests that organizations everywhere should:

-) Exhibit an ethical "Tune ate the top".
-) Hire only the honest and ethical employees.
-) Establish and effective risk management program and a strong system of internal control.
-) Establish and maintain a competent internal auditing function.
-) Continuously monitor the organization operations, policies and procedures by board (audit committee) and governing authority.

In Nepal until recently no concept of balance between executive and non executive directors were in practice. The promoters love to control the compositions on the board. There are still no limitations on the maximum number of membership in the board or chairmanship in any committee of board. They prefer to exploit maximum benefit from the company by restricting the disclosure of necessary information. They even prefer to exploit financial benefits by manipulating the interpretation of the mandatory provisions while staying in the board. The company is considered family show biz (Pradhan, 2005).

Even government of Nepal and Nepal Rastra Bank used to nominate office bearers to the boards of banks and financial institutions. They were supposed to safeguard the interest of government or NRB respectively in stead of safeguarding the interest of concerned banks. However this practice has been stopped by NRB which has been followed by government.

The concept of audit committee has not gained much significance in most of the organizations. The concept of the oversight by the board over the management has not gained any momentum. The management prefers to conceal information from the board. The directors executive level prefers to call boards meeting frequently that information can be concealed. The rights of shareholders are paid least attentions. The share holders are also not quite well aware of their rights and responsibilities.

2.1 Concluding remarks

Corporation itself is an abstract and originated from common law. As per the law, corporation is a legal person having no mind and hand to work like natural person. According to the jurist the person can be classified in to two sorts i.e. natural and artificial, and the corporation is artificial or fictional as per the law. After incorporation the company deserves all rights at par of other persons. The history of incorporation of company has come from 13th century but present types of statutory provision of incorporation have come only from 17th century from UK. From the beginning to 1990s the corporation came running under managing model by which the world has faced so many corporate scandals. Large corporate failures have often stimulated debate about Corporate Governance, leading to regulatory action and other reforms. In the UK the collapse of the Maxwell publishing group at the end of the 1980s stimulated the Cadbury code of 1992, and cases through the 1990s such as Poly Peck, BCCI and recently Marconi stimulated

a series of further enquiries and recommendations. Widespread distress among banks in Korea in 1997 was viewed as not only macroeconomic in origin but as also reflecting governance weaknesses. In Germany the cases of Hertzman, Berliner Bank, and more recently Babcock have served the same catalytic role as did the collapse of HIH (a large insurer), Ansett Airlines and One Tel in Australia. Credit Lyonnaise and Vivendi have raised many governance issues in France; and in Switzerland the events at Swissair have had a similar effect. Large failures of both financial and non-financial institutions in Japan have also led to regulatory responses and to legal changes. Finally, the cases of Enron, World Com and Tyco have initiated major debate and legislation in the USA.

All mentioned failures were cause of 'Managing' model beyond the 'Governing', if we see the traditional managing model; the CEOs held real power and have picked directors who served at their pleasure. Before the 1990s the word "Corporate Governance" was not as famous but the term corporate management had been taking the place. In this connection Pull Davies has said that over the past two decades, Corporate Governance has been a highly fashionable topic in company law and has generated an enormous literature. Before 1990s somehow the place was taken by the term Corporate Management. When the world faced the great Asian Financial Crisis in 1997 and spread all over the world as flu, new concept of Corporate Governance is adopted and that called Corporate Governance.

On the Corporate Management or Managed Model senior manager are responsible for leadership and decision making. The board function is to hire top level manager, monitor them and fire them if they do not perform. Shareholders role is only to throw out the board if needed. The shareholder's role was must dependent on managers and directors. But 1990 onwards, company does not want to depend on managers. While the paid team of managers could not drive the company, as not being owners they dose not

have the feeling of loosing, they always have been ready to desert the company and go elsewhere with handsome remuneration. Instead of that the new concept has been introduced as Corporate Governance in which the first step of company's governance system is rethinking the role of directors. The directors must have expertise in corporate business they have to focus, to meet corporate objectives, and have to make strategies, review the past performance and they should require devoting sufficient time to the corporation. On the governing model directors have to make regular communication and need to pay adequate regard to the managers' board members, shareholder and society at large. In this "Corporate Governance" model the directors are more responsible and develop the sense of ownership. All most all the managed corporate model has been failed and this is an age of "Governance model". In this model owners or shareholders have to involve in decision making and key functioning role. When the governing model has been failed to save the corporation from scandals then the governance model has been adopted under the leadership of directors not under the paid managers. Now in the world there are so many efforts going on to enhance Corporate Governance but the OECD has been able to governance the world through benchmark guiding principles of Corporate Governance. Indeed as mentioned above when the world faced the East Asian Financial Crisis in 1997 the entire world stands to face the flue of the crisis. At the same time the world renowned power company The Enron falls in to collapse and affected the whole world. USA tried on various aspects to maintain as good remaining corporations but finally forced to enact new law and passed the Sarbanes-Oxley Acts in 2002. On the other hand the member countries of the OECD (Organization of Economic Co-operation and Development) have developed the principles of good governance in corporation in 1999 and revised in 2004.

The word Corporate Governance is defined as the relationship management among the Management, Board of Directors, Shareholders and other

Stakeholders. A good Corporate Governance practice is crucial for overall development of the corporate sector. Corporate Governance is all about bringing change in thinking process of how business is operated and it's about disclosure, transparency, free flow of information and maximizing of shareholder's wealth.

Corporate Governance refers to the manner in which a corporation is directed and laws and costumes are affecting the directions. It includes the laws governing the formulation of the firm, bylaws established by the firm itself and the structure of the firm. The Corporate Governance structure specifies the relationship and the distribution of the rights and responsibilities among these primary groups of participation; the Board of Directors, Managers and shareholders. The fundamental concept of Corporate Governance is to ensure that directors and managers act in the interest of the firm and its stakeholders and means by which managers are held liable and accountable to capital providers for the use of assets. Corporate Governance came into prominence in the last two decades of the twentieth century in the United State of America and Europe. It was due to the impact of business failure at that period.

Today the banking and financial sector is an important constituent of any country's economy. When the financial sector is developed, the chance of economy being robust is high. This is because it is the financial sector that oils the wheels of almost all the areas of the economy. In this sector the Corporate Governance may be thought of as a philosophy that helps Banks to function on the principle and code of best practices so as to attain their targeted goals. Corporate Governance guides banks to move ahead in such a manner that they can give stability to the micro economic condition. And here the importance of good Corporate Governance comes into the picture. Good Corporate Governance enables banks to play a vital role in bringing

about macro economic stability, which in turn would contribute to the economic growth.

Corporate Governance has become an issue of world wide importance. The corporation has vital role to play in promoting economic development and social progress. The good Corporate Governance practices are crucial for the overall development of corporate sector. There is no controversy as to whether good Corporate Governance is an important requirement for overall market confidence, efficiency of international capital allocation, industrial bases, and ultimately nations overall wealth and welfare. Today the financial sector is an important constituent of any country's economic development. The efficiency and accountability of the corporation is now a matter of private and public interest and governance has thereby comes to the head of international agenda. Corporate Governance is increasingly becoming a criterion for investment and lending. Time has already past when business corporations could remain competitive in market based solely upon their superior product and advanced technology. Economics globalization has made it amply clearly to all countries, why the issue of Transparency, Accountability, and equity in Corporate Governance are also important to investor's confidence and to overall national economic performance. Good Corporate Governance helps to ensure that business corporations benefit to other stakeholders from a long term perspectives.

Corporate Governance ensures that company has good system which allows sufficient freedom of the board of directors and executives to take decisions for the progress of the company. The main constituents of Corporate Governance are ethics, investor's protection, social responsibilities, transparency and full disclosure in annual report and financial statements. Corporate Governance refers to sets of rules and practices, which provides the structures through which the objectives of organizations are accomplished. It has meant the establishment of legal and regulatory

frameworks that promotes the emergence of credible and effective governance practices for the benefits of economy and society as a whole.

Some of the important concepts of Corporate Governance are Minority shareholder's protection, Agency problems, Independent directors, Audit committee, Business ethics, Board-CEO relationship, Disclosure and transparency, Annual General Meetings and Participation of stakeholders in company affairs etc. The quality of Corporate Governance depends on ability of the Board of Directors, Commitment level of individual board member, Quality of corporate reporting, Participation of stakeholders in the management and adequacy of the procedures.

In Nepal, banking and financial sector has relatively good Corporate Governance in comparison to other sectors though the pace towards moving it is only satisfactory. The role of good Corporate Governance has started to be recognized in the banks and financial institutions through the introduction of prudential regulations on Corporate Governance by the Nepal Rastra Bank (NRB) since 2002, which here have been followed by the incorporations of some provisions regarding Corporate Governance in the banks and financial institutions ordinance, and the company ordinance. Lack of awareness among investors is the main cause of poor state of Corporate Governance. Lack of qualified independent board members is another major problem for this issue. For promoting good Corporate Governance practices in banking and financial institutions, Nepal Rastra Bank should be the main responsible body followed by the organization itself.

Timely and accurate disclosure and transparency is the most important element of good governance. It is believed that good governance in the organizations is the source of competitive advantage and can reduce the misallocations of valuable resources. It also promotes securities market by increasing the confidence level of investors.

For improving Corporate Governance practices in financial sector, management culture must embody committed and responsible business ethics, proper educational and awareness programs for the shareholders, and employee's participation in decision making processes. Responsible board members, adopting of international accounting standards, compliance with rules and regulations, institutional investors, amendments in the laws from time to time, role of Nepal Rastra Bank and healthy competitive environment are essential.

While doing literature review, considerable attention has been given to familiarize with the key concepts of good Corporate Governance practice, which are independent directors, disclosure, transparency, agency problems, Board-CEO relationship, investor's protection and auditor's perspectives etc. Various principles suggested by different organizations and committees have also been reviewed for example, the OECD principles of Corporate Governance, five bench marks of excellence in governance. No doubt the financial sector is an important constituent of any country economy. Where the financial sector is developed, the chance of economy being robust is high. This is because it is financial sector which oils the wheels of almost all the areas of the economy. In the financial sector Corporate Governance may be thought of as a philosophy that helps banks and financial companies to function on the principles and code of best practices so as to attain their targeted goals. Thus this research is to be one useful and rewarding work.

Thesis Review:

While researching the thesis work it is been observed that went through the several thesis research on the same topic some of which are listed below:

1) Devkota , 2002 AD:-

Corporate governance in financial sector in Nepal, issues, practice and significance.

Main Objective by Devkota:

-) To observe how the financial sector are formulate and implement the corporate governance.
-) To promote the effective corporate governance in the financial sector.
-) To assessed the corporate governance pattern in the Nepalese financial sector.

Research methodology by Devkota:

Research methodology has been conducted under five different stages which are as follows:

-) Research Design
-) Selection of sampling and population
-) Data collection procedure
-) Explanation of statistical and analytical tools
-) Data processing procedure.

Major Findings by Devkota:

Major findings have been conducted on the primary and secondary data collection basis i.e., the survey on governance issues, practice and significance in financial sector in Nepal some are as details below:

-) In their overall ranks for the importance of basic foundation of good corporate governance i.e. professional management, adequate financial disclosure, devoid of owners interface in day working, self compliance of various rules and regulations and 'others' the

majority of respondents give the first priority to professional management.

) With respect to the corporate governance practice exists in the organization, the majority of respondents give first priority to protection of shareholders right.

) With respect of implementation of corporate governance i.e 'by regulation', voluntary approach', and 'combination of both' the majority of the respondents feel that it is implemented by regulation.

2) Sapkota, 1995 AD:-

Corporate governance in Nepalese financial institution, in context of financial sector reform.

Main Objective by Sapkota:

) To identify the problem of good corporate governance in banking and financial sector.

) To access existing legal provisions for the efficient corporate governance practices in Nepalese financial institution.

) To familiarize with the concept and issues of corporate governance.

Research methodology by Sapkota:

Research methodology has been conducted under four different stages which are as follows:

) Research Design

) Selection of sampling and population

) Data collection procedure

) Explanation of statistical and analytical too

Major Findings by Sapkota:

Major findings have been conducted on the primary and secondary data collection basis i.e., the survey on governance issues, practice and significance in financial sector in Nepal some are as details below:

) With respect to who play the important role in corporate governance issues, the majority of respondents feel the 'board of directors' while some feel 'employees (each and every one) as the most followed by auditors and then shareholders

) With respect to the need of corporate governance in Nepal, the majority almost 94% of respondents feel that 'realization that business being part of the society owes certain obligations toward the society' is the most important need.

) With respect to whom the company directors are accountable i.e. 'to shareholders', 'to employees', 'to management'. 'to social group' and 'others', the majority of the respondents give first priority to shareholders while 32% of the respondent give priority to employee.

3) Aoki, 1989:-

Corporate governance in financial sector in transitional economy, insider control and the role of the bank.

Main Objective by Aoki:

-) To observe how the financial sector regulate and make policy in the transitional economy.
-) To examine the opinion and views of employee and governing bodies of financial sector in transitional economy as corporate governance practice.

Research methodology by Aoki:

Research methodology has been conducted under four different stages which are as follows:

-) Research Design
-) Sources of data
-) Data collection procedure
-) Analysis method

Major Findings by Aoki:

Major findings have been conducted on the primary and secondary data collection basis i.e., the survey on governance issues, practice and significance in financial sector in transitional economy as details below:

-) The corporate governance practice exists in the organization as 'protection of shareholders right' which is also analyzed by two

other researchers as mention above. Here situation of corporate governance practice means its pace of practice. With respect to this many of the respondents feel that the pace of corporate governance practice is very weak and also unsystematic/non-sufficient.

) Due respect to the duties and responsibility the directors bear, the majority of respondents give first priority to code of conduct and with respect to the knowledge and experience of the board members in the related field 52% of the respondents stated 'no', while 48% of the respondent say 'yes'.

) With due respect to the responsibility for setting standards for corporate governance, the majority of respondents give 'management' first priority, 'government legislators' second priority, 'business bodies' third priority and forth priority to non-governmental organization'. While some respondent gives first priority to business bodies.

CHAPTER-III

Research Methodology

Research methodology is divided into five sections. First section represents the research design of the study, second section deals with the selection of population and sampling procedures. Third section is related to the data collection procedures. Fourth section explains statistical and analytical tools been employed during research work and fifth section deals about the data processing procedures.

3.1 Research Design

Research design refers to the entire planning and carrying out of a research study (Wolf and Pant: p 33). It is a framework for collection and evaluating data after identifying what the researcher wants to know and what has to be dealt with, in order to acquire required outcome. In order to conduct this research study descriptive com analytical research design has been adopted. Descriptive research design has been utilized mainly for conceptualization of the associated issues of Corporate Governance; analysis of primary data has been followed, mainly to familiarize with current practices of Corporate Governance in Nepalese financial instructions.

Questionnaire was developed to collect options from various respondents regarding various issues of Corporate Governance. Questionnaire was provided to all respondent and collected after few days, so that they will get enough time and the survey will have bias less and actual information.

3.2 Nature and Source of Data

The necessary secondary data and information will have been collected on corporate governance issues from various publications, data available in the records of Securities Board of Nepal. The major source of secondary data and information are as follows:

-) Various Journal of management (Journal of Finance, Journal of Financial Economics etc)
-) Various Seminar papers on corporate governance.
-) URL of NEPSE Ltd., <http://www.nepalstock.com>
-) Various Companies reports, recorded in SEBO/N and
-) Other governmental and non-governmental publication, book, journals, previous research studies, dissertation, websites and article will be used.

Similarly, this study will be used the primary data through the survey. This investigation deals with the study of the opinions of respondents with respect to the major issues and practices of the corporate governance in the financial institutions in Nepal. This study will be based on the structured questionnaire as well as unstructured dialogue with the respondents (i.e. structured questionnaire is in Appendix – A). A total of 20 owners and 40 managers and non managers will be selected. The sample selected for this section of study is drawn from all the sectors companies of financial institution which are listed in NEPSE Ltd. The study will be therefore based on visits to the organizations, investors and BODS and experts and company's respondents will be also interviewed during the study visit.

3.3 Selection of Enterprises

Table 1: Number of enterprises selected for the survey investigation

S.N	Sector	N	n.
1	Central Bank	1	1
2	Commercial Banks	10	5
3	Development Banks	12	5
4	Finance Companies	30	7
5	Co-Operative Society	20	10
6	Insurance Companies	5	3
7	Regulatory Bodies-ICAN	1	1
Total		79	32

Source: Web page of NEPSE Ltd.: <http://nepalstock.com> and SEBO/N

Note:

) N indicates the total number of financial institution of Nepalese enterprises that were listed in NEPSE and

) n indicates for the number of enterprises selected for the survey investigation.

3.4 Method Analysis

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. The analysis of the data consists of organizing, tabulating the performing statistical analysis (Wolff and Pant p. 127). Primary data will be classified and analyzed by using various statistical and financial tools.

A. Statistical Tools used:

A brief explanation of statistical tools employed in this study is as follows:

Sample Arithmetic Mean

Sample arithmetic mean is the sum of the values of all the elements in the sample ($\sum x$) and divided by the number of the elements in the sample (n).

Weighted Mean

Weighted Mean is an average that takes into account how important each value is to the overall total. In this study, weighted mean is calculated to analyze rank wise number of responses to field survey.

Median

The median is a single value that measures the central item in the data. Half the items lie above the median, half below it. If data set contains an odd number of items, the middle item of the array is the median. In this study, median values of responses for each statement of observations on corporate governance practices will have been computed.

Quartiles

Quartiles are the Fractiles that divide the data into four equal parts. This study will use quartiles in the case of having equal median values for the statement of observations of survey.

Chi-Squares Test

The Chi-square test is an important test amongst the several tests of significance development by statisticians. In this study chi-square values will be computed to assess whether the difference in the opinions of the companies, investors, BODS and experts respondents as to major issues, practices and significances/needs of the corporate governance in Nepal is significant.

Spearman's Rank Correlation

Spearman's rank correlation is a measure of correlation that exists between the two sets of rank. In other words, it is measure of association that is based on the ranks of the observations and non on the numerical value of the data. This will be calculated in this study to find the degree of relationship between the responding groups, it is tested for significance.

3.5 Data Collection Procedures

This research study deals with the opinions of respondents regarding the major issues and practices of Corporate Governance in financial institutions of Nepal. The data used for this research study are of primary nature, collected through structured questionnaire as well as unstructured dialogues with all respondents. Sufficient time was provided to all the respondents since they had to manage various tasks according to their level in the organization they are related to. Drop and collect method was used for gathering data so all the respondents can provide their actual opinion with sufficient time.

Model of Data collection Procedure

Table

3.1

Concept Building
Review of Literature and Previous Research Works
Identification of Population, Sample Frame, sampling method and sample size determination
Questionnaire development
Pre testing and administering of questionnaire with research guide
Finalization of questionnaire
Providing Questionnaire to the respondents
Collection, sorting and analysis of questionnaire
Presentation of the finding and Report Writing

3.6 Data Processing procedures

The objective here is to generate that data are accurate, consistent with the intent of the question and other information in the survey. Data uniformly entered and well arranged to simplify coding and tabulation. All the information acquired from the respondents was handled carefully to give the best possible meaning. To do so, statistical program MS-excel was used to

process data. Before the data were put into the program, all the responses were edited manually to ensure that there is no over writing of the respondents in the questionnaire. Some responses were discarded because respondents failed to meet the criteria and some gave insufficient information. Only these questionnaires were used in the analysis that had substantial responses on the asked questions.

In computer program numerical data were used to assign each response such as 1, 2, 3 7 and the program performed the remaining part such as analyzing, charting frequencies and so on.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4. Introduction

4.1 Profile of respondents:

The profile of respondents means to their status according to their designation. Since this study deals with corporate governance in Bank and Financial Institutions, respondents of questionnaire are selected from financial sector and governing bodies of this sector. They are from listed banks and finance companies of stock exchange board, NRB, ICAN and SEBON. Table below shows the status of the respondents.

Status	Frequency	Percent
Managerial level	28	46.67
Non- Managerial level	32	53.33
Total	60	100

Table-4.1 Respondent's Profile

As shown in the table 4.1, 28 respondents among 60 are managerial and 32 are non managerial level employees such as BOD, CEO, Dept Head, Branch Manager Officers etc and in Non managerial group included are Junior/senior assistants, supervisor etc. and in managerial level are officers managers etc. They are ranked in managerial and non managerial level according to the level of influence they have in managerial decisions in the organizations.

4.2 Meaning of corporate governance.

With respect to the question of what does corporate governance mean to you, majority of respondents (46.67%) said it's all about Transparency. While second prime meaning of corporate governance to respondents seems to be controlling management's deficiencies and then come best performance and good relationship as the meaning of corporate governance to the respondents.

16 out of total 32 non managerial respondents and 12 out of 28 managerial respondents felt that corporate governance is all about transparency of whatever is the performance of the organization. 12 out of total 32 non managerial respondents and 9 out of 28 managerial respondents said that corporate governance is to control managerial deficiencies. Out of rest of respondents 2 non managerial and 4 managerial respondents went for good relationship with stakeholders and 2 non managerial and 3 managerial respondents went for best performance as the meaning of corporate governance for them.

To test either the difference in the views of managerial and non managerial level respondents is significantly different or not, Chi- square test was

employed. The computed value of chi-square is 1.607 (appendix 1). and the tabular value with 0.05 level of significance is 2.353. Depending upon this value it can be said that there exists significantly no difference in the opinions among managerial and non managerial respondents regarding the meaning and definition of corporate governance.

4.3 Sector having good corporate governance.

With regards to which sector has good corporate governance practices, the majority of respondents (93.33%) agreed that banking and financial sector has good corporate governance practices and 3.33% respondents agreed that manufacturing and processing sector has good practice of corporate governance. Only 3.33% went for the Service and Trading sector. None of the managerial respondents felt that service sector and trading sector has been practicing corporate governance. All the managerial respondents and 28 non managerial respondents agreed that banking and financial sector has good corporate governance where as 2 non managerial respondents out of 32, said manufacturing /processing sector has good corporate governance and one each among rest of non managerial respondents went for service sector and trading sector.

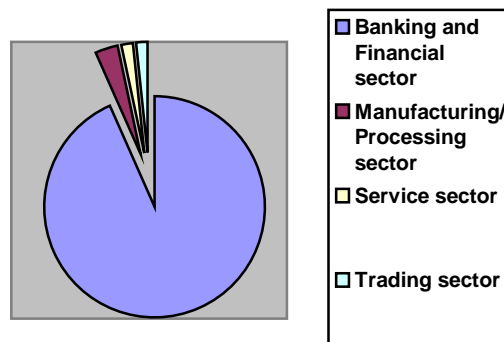


Figure-4.1,
(Sector having good corporate governance)

To test whether the differences in the opinions of the respondents

from managerial and non managerial level employees is significant; chi-square test has been employed. The computed value of chi-square is 3.75 (appendix 2). And the tabular value of chi-square at 0.05 level of significance is 2.353. It can therefore be stated that the opinions of the responding groups are not similar and that there is significant differences with respect to the views on the sector having good corporate governance practice.

4.4 Pace of corporate governance in financial sector of Nepal

With respect to the current pace of corporate governance practices, the majority of the respondents 50% felt that corporate governance practice is Good. While 36.67% of respondents has appointed that the present pace of corporate governance practice in financial sector is Satisfactory. 10% respondents agreed that pace of practice of corporate governance is Weak while. only 0.33% respondents agreed that pace of practice of corporate

governance is Very good and none of the respondents felt the present pace of corporate governance practice is very weak. Response is shown in graph below:

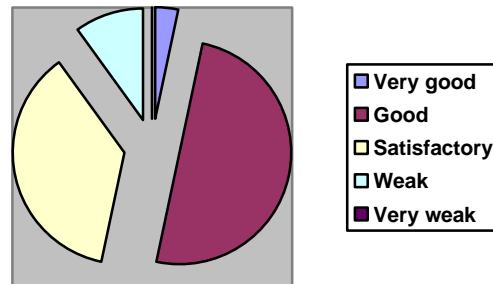


Figure-4.2, Pace of corporate governance in financial sector of Nepal

The option Good was selected by highest numbers. if we analyze the responses of managerial and non managerial employees respectively, out of 28 managerial 15 Said that it is Good and 10 Went for Satisfactory while 2 and 1 of them went for Weak and Very good respectively while none of them said its Very weak. Similarly out of 32 non managerial employees, 15 said the pace is Good but 12 and 4 people said Satisfactory and weak respectively. Mean while 1 went for Very good and none went for Very weak.

To test if the opinion of the managerial and non managerial employees is significant or not chi-square test is employed. The computed chi- square value is 1.372 (Appendix 3) and the tabular value at 0.05 level of significance is 2.132. It can therefore be stated that the opinion of the responding groups are similar and that there is no such significant difference with respect to present pace of corporate governance practices in financial sector of Nepal.

4.5 Towards whom are company directors responsible?

Regarding the question of whom are company directors responsible, respondents were given four options to select them as the factor of corporate governance to whom the company directors should be responsible to. Majority of respondents (53.33%) Shareholders while second priority goes to employee which is selected by 26.67% respondents. Similarly 10% and 8.33% respondents went for management and society & government respectively.

Out of 32 non managerial respondents 15 said company directors should be responsible towards shareholders, 10 said they should be responsible towards employees and 4 and 3 of them went for management and society & government respectively. Similarly out of 28 managerial level respondents 17 had opinion that company directors should be responsible towards shareholders, 6 opined they should be responsible towards employees and 3 and 2 of them went for management and society & government respectively.

To test if the opinion of the managerial and non managerial employees is significant or not chi-square test is employed. The computed chi- square value is 0.897 (Appendix 4) and the tabular value at 0.05 level of significance is 2.132. It can therefore be stated that the opinion of the responding groups are similar and that there is no such significant difference with respect to the groups of stakeholders to whom governing bodies should be responsible.

4.6 Ideal number of board of directors.

In order to survey ideal number of board members size respondents were asked to choose among four different sizes of board members. Majority of respondents (75%) agreed that number of members in BODs should range between 4 and 8. only 21.67% of respondent said that board size should range between 9 to 13 members. None of the respondents said that the board size should be below 4 and 3.33% of them argued it should be above 14. It indicates that employees of financial institutions of Nepal want BODs that can make fast and better decisions at optimum level of cost and time. Out of 28, 17 managerial employees said that board size should range between 4 to 8 members where as out of 32 non managerial employees 28 have similar view and 9 people among 28 managerial and 4 among 32 non managerial level respondents said it should be between 9 to 13 members and only two managerial employees said it should be more than 14 but no one said it should be less than 4.

Numbers of members	frequency	percent
Less than 4	0	0.0
4 to 8	45	75.0
9 to 13	13	21.67
14 and above	<u>2</u>	<u>3.33</u>
Total	50	100.0

To test weather the differences in the opinion of the respondents from managerial and non managerial group is significant, chi-square test has been employed. The computed is chi- square value is 6.374 (Appendix 5) and tabular value at 0.05 level of significance is 2.353. It can be said that the opinions of the responding groups are not similar and that there is significant difference in the opinions of the groups with respect to the view on ideal number of members in a BOD of financial institutions.

4.7 Frequencies of Board of Directors meeting in a fiscal year.

50% of the total respondents agreed that in a normal situation board members should meet for 6 to 10 times in a fiscal year. And 41.67% felt that ideal number of board meetings in a normal situation should be 11 to 15 times in a fiscal year. Only 3.33% of respondents have said that board should

meet for less than 6 times in a year and the same agreed that it should be above 16 times. Majority of respondents in both of the groups of respondents (14 managerial and 16 non managerial) felt that board should meet for 6 to 10 times in a year, 12 managerial and 14 non managerial level respondents think that they should meet 11 to 15 times a year. Only 2 non managerial level respondents out of 32 said that board should meet for less than 6 times in a year and 2 managerial level employees out of 28 said that they should meet more than 16 times a year.

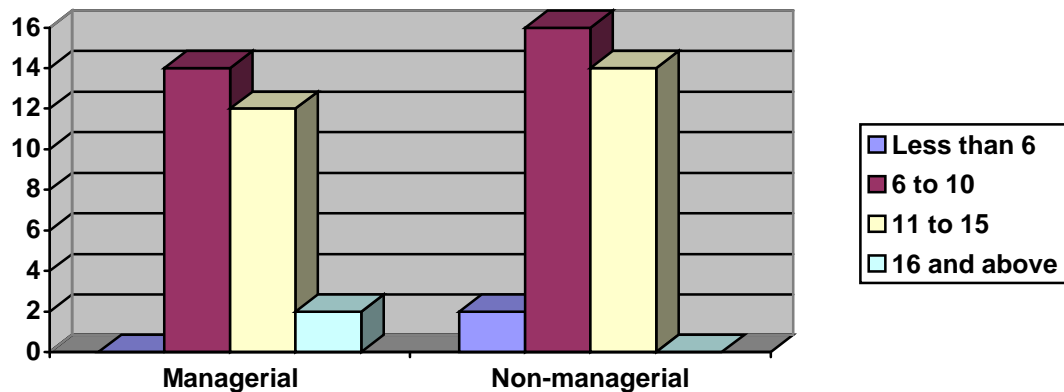


Figure-4.3, Frequencies of BOD's meeting in a fiscal year

To test whether the difference in the opinions of the managerial and non managerial employees regarding the ideal number of board meetings is significant, chi-square test is employed. The computed chi-square value is 4.038 (appendix 6) and the tabular value at 0.05 level of significance is 2.353, it can be stated that the opinions of the responding groups are not similar and that there is significant difference in views of them in regards to the numbers of board meetings in a year in normal situation for financial institutions of Nepal.

4.8 Current way of holding Annual General Meeting.

To survey the views of both managerial and non managerial level employees about the current way of holding annual general meetings in financial organizations four options were provided. Regarding this topic majority of respondents (55%) said it is an effective forum for the shareholders to give directions to the board and management. Similarly, 30% of total respondents said it's held just for statutory requirement and not more than that and 11.67% said it's just a necessary evil and no more but 3.33% went for others. Out of total 28 managerial level respondents, 15 opined it as an effective forum, 9 opined that it's just for statutory requirements and 3 of them went for the view that it's no more than just a necessary evil. Similarly, out of 32 non managerial respondents 18 felt its effective forum while 9 said its just statutory requirement and 4 said its only a necessary evil.

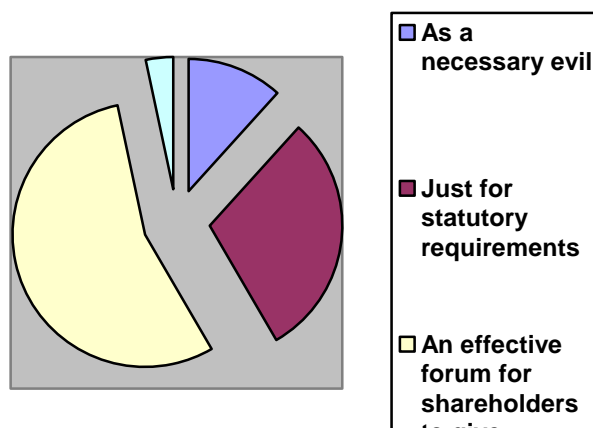


Figure-4.4, Current way of holding Annual General Meeting

To test whether the difference in the opinions of the managerial and non managerial employees regarding the ideal number of board meetings is significant, chi-square test is employed. The computed chi-square value is 0.15 (appendix 7) and the tabular value at 0.05 level of significance is 2.353, it can be stated that the opinions of the responding groups are similar and that there is no such significant difference in views of them in regards to the current way of holding annual general meetings in a fiscal year in financial institutions of Nepal.

4.9.1 Corporate governance and strengthening institutions

With respect to better corporate governance strengthening institutions, enacting regulations, building administrative and monitoring capacity and political support, the majority of respondents (91.67%) agreed. 5.0% of the respondents disagreed with the statement and 3.33% are indifferent with the given statement. Out of 32 non managerial respondents 27, 3 and 2 are agreed, not agreed and remain indifferent with the statement and all 28 managerial level respondents agreed with the statement.

Responses	Frequency	Percent
Yes	55	91.67
No	3	5.0
Don't know	2	3.33
Total	60	100.0

To test whether the difference in the opinion of all the respondents is significant, the chi-square test was employed. The computed chi-square value is 4.773 (appendix 8.1). And the tabular value at 0.05 level of significance is 2.92. It can therefore be said that the opinions of the responding groups are not similar and that there is significant difference in the opinion regarding better corporate governance involves strengthening institutions, enacting regulations building administrative and monitoring capability and political support.

4.9.2 Good corporate governance and competitive advantage.

With respect to the statement that good corporate governance is the source of competitive advantage and critical to economic and social programs, majority of respondents (91.67%) felt that good governance of corporation is source of competitive advantage. 6.67% of the respondents are not agreed with the statement and 1.67% are indifferent with the statement whether good corporate governance is the source of competitive advantage and critical social and economic programs or not. out of non managerial level respondents 30 are agreed and out of non managerial respondents 25 are agreed with the statement, where 2 and 1 are not agreed and indifferent respectively.

Responses	Frequency	Percent
Yes	55	91.67
No	4	6.67
Don't know	1	1.67
Total	60	100.0

To test whether the difference in the opinions of respondents is significant or not, chi-square test was employed. The computed value of chi-square is 1.193 (Appendix 8.2) and the tabular value of significance at 0.05 level of confidence is 2.92. It can therefore be stated that the opinion of responding groups are similar and that there is not significance difference in the opinions of the responding groups regarding the statement that good corporate governance brings in competitive advantage.

4.9.3 Corporate governance and misallocation of resources.

With respect to the statement that corporate governance can reduce the misallocation of resources and improve the productivity of the firm, the majority of the respondents (86.67%) agreed with the statement, only 5.0% are indifferent and 8.33% of them are against the statement. Out of 28 managerial respondents 22 agreed, 4 remained indifferent and only 2 disagreed with the statement that good corporate governance can reduce the level of misallocation of resources. Similarly out of 32 non managerial respondents 30 agreed, one disagreed and one remained indifferent to the statement.

Responses	Frequency	Percent
Yes	52	86.67
No	3	5.0
Don't know	5	8.33
Total	60	100.0

To test whether the difference in the responses of different responding groups regarding the statement is significant or not, chi-square test was

employed. The calculated chi-square value is 3.11 (appendix 8.3) and the tabular value of chi-square at 0.05 level of confidence is 2.92. It can therefore be stated that the difference in the opinions of different groups are significantly different and there is no similarity in their views regarding the statement that good corporate governance can reduce the misallocation of resources of firm and improve its productivity.

4.9.4 Competition and better corporate governance.

Regarding the statement that competition among financial institutions will lead to better corporate governance practice in those institutions, majority of the respondents (58.33%) have agreed, 25% of the respondents are against the statement and rest 16.67% are indifferent with the statement. Out of 28 managerial respondents 18 agreed with the view, 8 disagreed and 2 remained indifferent. Similarly, out of 32 non managerial respondents 17, 7 and 8 agreed, didn't agree and remained indifferent respectively regarding the statement that good corporate governance can be gained through competition.

Responses	Frequency	Percent
Yes	35	58.33
No	15	25.0
Don't know	10	16.67
Total	60	100.0

To test whether the responses gained and the differences in the views of the different groups are significantly different regarding the statement, chi-square test was employed and calculated chi-square value is 3.44 (appendix 8.4) and tabular value of chi-square at 0.05 level of confidence is 2.92. Thus it can be stated that the opinions of different groups are not similar and they are significantly different with respect to the statement that competition will bring better corporate governance in practice in financial institutions.

4.9.5 Board members are well qualified.

Regarding the statement that board members of Nepalese financial institutions are well qualified to handle the situation of organizations and all affairs of company with best possible strategic manner, majority of respondents (50%) disagreed they felt that board members are not well qualified. While 28.33% said they are well qualified and 21.67% remained unknown and indifferent to this regards. Out of 32 non managerial respondents, 5 said that board members are well qualified while 20 of them said that they are not and rest 7 remained indifferent to the statement. Similarly, out of 28 managerial respondents,

Responses	Frequency	Percent
Yes	17	28.33
No	30	50.0
Don't know	13	21.67
Total	60	100.0

To test whether the responses gained and the differences in the views of the different groups are significantly different regarding the statement, chi-square test was employed and calculated chi-square value is 6.053 (appendix 8.5) and tabular value of chi-square at 0.05 level of confidence is 2.92. Thus it can be stated that the opinions of different groups are similar and they are not significantly different with respect to the statement that board members are well qualified in financial institutions of Nepal.

4.9.6 Value of firm's stock practicing good corporate governance.

With respect to the question that whether investors would pay more for the securities of the companies practicing good corporate governance, the majority of respondents (66.67%) agreed and 20% felt that they are indifferent with the view and 13.33% of the total respondents are against the view that firm's stocks are well paid if they are practicing good corporate governance. In this connection out of 28 managerial level respondents 19 agreed with the statement, where as 5 of them held contrary view and 4 of them remained indifferent to the view that investors will pay more for the stock of firms having good corporate governance practiced. Similarly out of 32 non managerial respondents 21 agreed to the view, 7 held view against this statement and 4 remained indifferent to the view.

Responses	Frequency	Percent
Yes	40	66.67
No	12	20.0
Don't know	8	13.33
Total	60	100.0

To test whether the difference in the opinions of different responding groups is significant or not, chi square test was employed and the calculated chi-square value is 0.167 (Appendix 8.6) where the tabular value of chi-square is 2.92 at 0.05 level of significance. Thus it can be stated that the views of different responding groups regarding the statement that investors will pay more for the stock of firms practicing good corporate governance is similar and they are not significantly different.

4.10 Elements/ factors of good corporate governance practices.

In order to survey which is the most important and frequently practiced element of corporate governance and which is the least important and least

practiced one for the promotion of good corporate governance in Nepalese financial institutions, The various elements specified here are ‘Corporate culture emphasizing sense of accountability’, ‘Timely and accurate disclosure and transparency’ ‘Participation of shareholders in company affairs’, ‘Diligent exercise of the board of director’s responsibilities’ and ‘Protection of shareholder’s rights’.

Elements	Managerial	Non-Managerial	Total
Corporate culture emphasizing sense of accountability	1	1	2
Timely and accurate disclosure and transparency	16	20	36
Participation of shareholders in company affairs	3	6	9
Diligent exercise of the board of director’s responsibilities	4	4	8
Protection of shareholder’s rights	4	1	5
Total	28	32	60

Respondents have been asked to select among the above mentioned elements as the most important and the least important factor or element of good corporate governance practice. Majority of the respondents are of the view that ‘Timely and accurate disclosure of company affairs and financial situations of the company’ is the most important element of good corporate governance practice in context of Nepalese financial institutions in comparison to other elements. Similarly, ‘Participation of shareholders in company’s affairs’ occupies the second position as an important factor being practiced. The factor which came as third important element in the view of respondents is ‘Diligent exercise of BOD’s responsibilities’. ‘Protection of shareholder’s rights’ is fourth important and ‘Corporate culture emphasizing sense of accountability’ is the lowest important and less frequently practiced element of corporate governance in Nepalese financial institutions in view of respondents.

If we analyze the responses by status of the respondents, both managerial and non managerial level respondents have chosen ‘Timely and accurate disclosure and disclosure’ as the most important element of good corporate governance. Managerial respondents have given second priority to the ‘Protection of shareholder’s rights’ and ‘diligent exercise of BOD’s responsibilities’ with equal importance. Whereas non-managerial respondents have given second priority to the ‘Participation of shareholders in company’s affairs’. This result shows that lower level employees are still of the view that they are deprived and don’t have enough participation in the

company's affairs because they believe that all level of shareholders are not being treated equally and given place in the major decision making of the company, so that they have placed 'Participation of shareholders in company's affairs' at second important factor.

To test whether the difference in the views of different respondents regarding the elements and their priority are significant or not, chi-square test was employed for each individual element. Calculated chi-square values for all elements are higher than that of tabular value (3.432 and 2.132 respectively). so it can be stated that views of different respondents groups are significantly different and not similar (appendix 9) regarding the priority level of different elements of good corporate governance in financial institution of Nepal.

4.11 Responsible governing bodies for promoting good corporate governance in financial institutions of Nepal.

Company Registrar's Office

The company registrar's office is as recommended in the company act 1997. the ROC is empowered to issue orders to a company demand explanation on any unclear point within an appropriate time limit prescribed by its section 95. The management of the company is required to comply with such orders within the specified time limit and comply with ROC directives to rectify and control irregularities.

The ROC may depute inspectors to conduct investigation if shareholders of at least ten percent of the total paid up capital of the company or at least one fourth of the total numbers of the shareholders submit an application along with appropriate reason and evidence claiming that the company has acted in contravention of the company act 1997, or the memorandum article of association, prospectus or other various agreements of the company other existing laws. The ROC also can appoint and depute an inspector to investigate the business or transactions of the company if it is satisfied that the business or transaction of the company are being run within the intention of creating its creditors or shareholders or otherwise community and society fraud, or realizing any illegal objectives or a public company has not furnished any information required to be furnished under the company act 1997. It shall be the duty of the person who receives such directives to comply with them.

Securities Exchange Board of Nepal

Securities Exchange Board of Nepal (SEBON) was established by the government of Nepal on June 7, 1993 as an apex regulatory body of securities market of Nepal. It has been regulating securities market under The Securities Ordinance, 2005 issued on sept. 23, 2005. The functions,

duties and power of SEBON as per the securities Ordinance 2005 are as follow:

-) To offer advice to government on the matters connected with development of the capital market.
-) To register the securities of corporate bodies established with the authorities to make public issue of its securities.
-) To regulate and systematize the issue, transfer, sale and exchanging of registered securities.
-) To give permission to operate a stock exchange to any corporate body desirous of doing so. Subject to this ordinance or the rules and by rules framed under this ordinance.
-) To supervise and monitor the functions and activities of stock exchange.
-) To inspect whether or not any stock exchange is executing its functions and activities in accordance and to suspend or cancel the license of any stock exchange which is not found to be doing so.
-) To issue license to conduct the business of dealing in securities, subject to this ordinance or the rules and by rules framed under this ordinance to companies or institutions desirous of conducting the business of dealing in securities.
-) To supervise and monitor the functions of securities dealers.
-) To grant permissions to operate collective investment schemes and investment fund programs and to supervise and monitor them.
-) To systematize the task of clearing the account related to transactions in securities.
-) To supervise whether or not security dealers are behaving in the manner prescribed by the ordinance and the rules and regulations framed under this ordinance while conducting business of dealing in securities and suspend the license to conduct the business of dealing in securities in case any security dealer is not found to be having accordingly.
-) To systematize and make the transparent the act of acquiring the ownership of the company or gaining control over its management by purchasing its share in a single lot or in multiple lots.
-) To establish co-ordination, exchange and co-operation with the appropriate agencies in order to supervise and regulate matters concerning securities of companies.
-) To discharge or make arrangements for discharging such other functions as they are necessary for the development of securities and the capital market.

Listed companies are required to submit their annual report along with financial statement to SEBO and to Nepal Stock Exchange within four months after the expiry of the fiscal year and semi annual report within 60 days after the expiry of each six months period.

The governing body of SEBON is composed of seven members including one full time chairman appointed by the government for tenure of four years.

Other members of the board include joint secretary of ministry of finance, joint secretary of ministry of law, justice and parliamentary affairs representative from Nepal rastra bank representative from institute of chartered accountants of Nepal, representative from federation of Nepalese chamber of commerce and industries, and one member appointed by the government on the recommendation of SEBON from amongst the experts pertaining to management of securities market, development of capital market or financial or economic sector.

Stock Exchange (NEPSE)

The Nepal stock exchange (NEPSE) was established with an objective of facilitating and promoting the growth of capital market under the securities exchange Act, 1983. It commenced its trading floor on 13th of January, 1994. It is only stock exchange in the kingdom of Nepal. It is owned by the government, BRB, Nepal Industrial Development Corporation (NIDC) and NEPSE members. Issue managers, stock brokers, market makers and securities dealers registered by SEBON are authorized members of the stock exchange to conduct securities business. The securities exchange act 1983 empowers NEPSE to issue various by laws for the purpose of ensuring orderly and fair transaction of securities. Companies issuing shares to the public should have their securities listed in the stock exchange within three months of closing of offering. The NEPSE has issue securities listing Bylaws 1996 prescribing the terms and conditions for listing and disclosure requirements for listed companies as well as the membership of stock exchange and transaction Bylaws 1998.

Institute of Chartered Accountants of Nepal (ICAN)

ICAN was established under the CA Act 1997 to play the role of a regulatory body to enhance social recognition and faith in the accounting profession, to develop, protect and promote the accounting profession and develop a system of registration, qualification and examination of accounting professionals in accordance with international norms and code of conduct for accounting system. ICAN deserves a lot of credit for its achievements in a few years of existence. Much of this progress is due to the dedication and hard work of its members giving generously their time to serve on its council and its various committees. Despite all these progress however the challenges facing ICAN are many for example more registered auditors and accounting practitioners operate outside ICAN than within it and the setting of accounting standards and code of conduct. And it will be a tough task to include them all inside the norms and regulations of ICAN.

Nepal Rastra Bank (NRB)

NRB is the central bank of Nepal and the banker of the government of Nepal. It was established in 1955 by the NRB Act 1955 (which was replaced in 2002 by the new NRB Acts 2002) as an autonomous corporate body with perpetual succession. It is fully owned by government of Nepal and managed by a seven members board of directors, all appointed by the government itself. The NRB act authorizes NRB to issue mandatory directories to commercial banks and financial institutions on banking operations, currency and credit so far. NRB has issued 10 directives dealing respectively with, maintenance of minimum capital fund by commercial banks, loan classification and loan loss provision, limit on credit exposure and facilities to single borrower, group of sector, accounting policies and format of financial statements minimization of inherent commercial bank's risks, good corporate governance for implementations of regulatory directives, statistics for the investment in shares and securities and information to be furnished by those financial institutions to the NRB and transfer or sale of the promoters shares to safeguard the interest of the stakeholders. The NRB has made significant efforts in establishing good corporate governance in the banking and financial institutions of Nepal by adopting some of the main code of best practices. The mainly are:

-) Composition of board of directors.
-) Audit committee.
-) Fixation of board meetings and remuneration of directors.
-) Limitation of numbers for board membership.
-) Disclosure of interest by the management to the board of directors.
-) Rights of shareholders.
-) Redressing committee and compliance report.

The NRB directives have prescribed principal accounting policies for commercial banks dealing with disclosure of accounting policies. Consistencies in accounting policies explanation of accounting head notes on accounts and contingent liabilities. Commercial banks are required to publish their annual financial statements in public newspaper and to create audit committee and carry out internal audits. NRB has similarly issued 13 directives to finance companies dealing with a broad range of credit and accounting related issues.

In order to survey who is more responsible for promoting good corporate governance practices in financial and banking institutions of Nepal, the various governing bodies specified here are Company Registrar's Office, SEBON & NEPSE, ICAN, NRB, Corporate body and shareholders and the response to these entities by various respondents is presented in table below:

Responsible Governing Bodies	Managerial	Non-Managerial	Total
Company Registrar's Office	4	6	10
SEBON & NEPSE	2	3	5
Shareholders	4	2	6
ICAN	1	2	3
Corporate Body (BODs)	7	7	14
Nepal Rastra Bank (NRB)	10	12	22
Total	28	32	60

In their overall rank for which is more responsible for promoting good corporate governance in financial sector of Nepal, the majority of the respondents gave the first priority to the NRB and second priority to the corporate sector/body itself. Since NRB is the central bank of the country, it has authority to inspect and supervise the banking and finance companies. It is the Corporate sector (BODs) who has to follow the rules and regulations and if they are not honest it would be difficult to promote good corporate governance. Managerial and non managerial respondents have got the same view regarding the governing body, except Shareholders and Company Registrar's Office as given different position by different groups as mentioned in the above table, responsible for promoting good corporate governance concept for 'Company Registrar's Office' is selected as the third priority body for promoting corporate governance. Managerial level respondents think that 'SEBON and NEPSE' and ICAN are least important and non managerial respondents think the same.

To test whether the difference in the opinions of the respondents is significant at 0.05 level of confidence, the chi-square test was employed for each element separately. The computed chi-square value is 1.379 and tabular value at 0.05 level of significance is 2.015 (Appendix 10). calculated value for all the elements are lower than the tabular value therefore it can be stated that the opinion of the responding groups are similar and they are not significantly different regarding responsible body for promoting good corporate governance in financial institutions of Nepal.

4.12 Problems of financial institutions of Nepal.

In order to survey major problems of good corporate governance in financial sector of Nepal, various elements are identified and they are weak legal and regulatory frameworks, inconsistent accounting and auditing standards, less importance given to minority shareholders, lack of qualified board members and lack of sufficient institutional investors. The survey results are presented in table below:

Elements	Managerial	Non-Managerial	Total
Weak legal and regulatory system/ framework	8	5	13
Inconsistent accounting and auditing standards	2	1	3
Less importance given to minority shareholders	1	2	3
Lack of qualified board members	12	18	30
Lack of sufficient institutional investors	5	6	11
Total	28	32	60

During the survey respondents were asked to point the most critical problem as among the given elements according to their importance as the reason for poor state of corporate governance in financial institutions of Nepal to. From the above table it is seen that respondents are of the view that financial sector doesn't have sufficient independent qualified Board of Directors. List of independent BODs provided by the NRB is not sufficient for the financial institutions of Nepal so first important element of poor corporate governance in Nepalese financial institutions is lack of qualified board members. Weak legal and regulatory system and framework has been identified as the second most important reason for the weak corporate governance in Nepalese financial institutions. The respondents are of view that all the rules and regulations are not well defined and sometimes they even give dual meanings. Respondents have felt the absence of institutional investors who can promote better corporate governance by giving necessary pressure to the financial institution's managements. Currently there are only few institutional investors mainly, employee provident fund, citizen investment trust and some insurance companies. 'Inconsistent accounting and auditing standards' and 'Less importance given to minority shareholders' are least important reasons according to respondents in making the corporate governance in Nepalese financial institutions poor.

If we analyze the responses according to the status of the respondents, managerial level respondents have given first and second priority to the 'Lack of qualified board members' and 'Legal and regulatory system' respectively. But non managerial respondents have given similar importance to the first element but selected 'Lack of institutional investors' as second prime factor and 'Weak legal and regulatory system & framework' as third important element. 'Inconsistent accounting and auditing standards' and 'Little importance given to the minority shareholders' is identified as the least important factor by both the groups of respondents.

To test whether the difference in the views of different respondents regarding the elements and their priority are significant or not, chi-square test was employed for each individual element. Calculated value of Chi-square is 2.022 while tabular value of same at 0.05 level of significance is 2.132. Calculated chi-square values for all elements are lower than that of tabular value so it can be stated that views of different respondents groups are not significantly different but they are similar (appendix 12) regarding the problems in the way of good corporate governance practice in financial institution of Nepal.

4.13 Review of legal provisions

There are numbers of laws and regulations requiring proper accounts to be maintained and financial reports produced by financial institutions and for such accounts and reports to be audited by authorized auditors. These laws include the company act, 1997, the commercial banks act 1974, the development bank act 1983, the income tax act 2002, the chartered accountants act 1997, bank and financial company ordinance 2062, securities ordinance 2062, company ordinance 2062 and bank and financial company act 2063. in addition the notification and directions issued to the banks by the NRB and the department of Inland Revenue contain further accounting and reporting requirements.

The Prospectus

The Prospectus is most important means of corporate disclosure. External investors invest their money in primary market on the basis of the Prospectus of the issuing company. Therefore the reliability of information contained in a prospectus has long lasting impact in investor's investment decisions. The company act 1997 requires that a prospectus including financial statement be filed to the Company Registrar's office before the company is qualified to offer its share to public for subscription (section 20). According to section 23(2), in case the prospectus has been published with fake particulars deliberately and in case any person offers any less from the purchase of securities believing that prospectus, the directors who have affixed their signature on the prospectus shall be personally liable for the payment of the compensation for the actual loss thus suffered. Section 21(1) of company act 1997 has listed 26 items of information which are required to contain in the prospectus.

Annual General Meeting

AGM is the only forum where shareholders can exercise their rights of being owners of the company. Fair transparent and regular AGMs are the sign of good corporate governance, hence the protection of investment. According

to section 63(1) of company act 1997, public company should hold first AGM within one year of authorization of licensing and it should be held within 6 months of completion of the fiscal years. If company is unable to call AGM within this period, ROC could grant additional three months if company duly applies for the same according to the section 63(2) of the company act 1997. Again if company could not hold AGM within this additional period and any shareholders filed petition against the company to the ROC then Roc can compel the company to hold AGM. The company has to provide notice at least 21 days prior to the holding of AGM stating the date, place and agenda for discussion.

Disclosure of Annual Financial Report

The company act 1997 has made the following provisions for maintenance of accounts.

Companies have to maintain accounts showing the actual state of business of the company according to general accepted accounting principles (GAAP) based on the double entry system. A public company has to prepare the following annual financial report at least 30 days prior to its AGM and a private company within 60 days from the expiry of its financial year.

-) A balance sheet as of last day of the financial year.
-) A profit and loss account of the financial year.
-) A cash flow statement of the financial year.

The company should prepare the balance sheet and profit and loss account in such a manner to reflect the true and fair view of its income and expenditure of business. Such balance sheet and profit and loss account must be prepared in the prescribed form (section 84, company act 1997). The format of the financial statement has been prescribed by the company act 1997. Although the latest directives require commercial banks to prepare their accounts in accordance with international accounting standards (IAS), there are no similar requirements for development banks or financial institutions.

Minority Shareholders Protection

Section 131 and 132 of the company act 1997 provide some remedial measures for the minority shareholders. A requisite numbers of members of the company who complained that affairs of the company are being conducted in a manner prejudicial to the public interest or in a manner opposite to the interest of the company. The aggrieved person may apply to district court for relief. According to section 132 of the company act 1997 any single share holder who has taken up to two and a half percent or more share of the company or several shareholders who hold at least five percent can sue at the district court against directors on behalf of the company or

against the person who controls the company or against any other person related to the corporation.

Provisions regarding Fiduciary duties and obligations

Fiduciary duties and obligations assume that the person in power or position works in good faith and does not work any thing for deriving personal benefits. In case of company, if company directors, auditors, managerial directors, secretary of the company and other key employees who are in power commit any offence and breaches of duties and obligations they are liable of these losses and damages caused by it. Similarly to act 127 in case auditors insert false particulars in his report while discharging his duties or omits necessary comments while auditing the accounts deliberately or through negligence or with some motive he may be fined not exceeding Rs 20,000 or imprisoned for a term of not exceeding two years or he may face both.

Voting Practice and Shareholders Rights

Shareholders have various collective and specific rights such as right to approve books of accounts, right to be elected, right to appoint, right to get dividend, right to see books of accounts and so on. Among all rights right to take part in AGM and right to vote are most prominent. A shareholder can take part in the meeting, provided he had fully paid his call money according to the section 57(4) of the company act 1997. Section 59 has provision of voting directors using cumulative voting system. In cumulative voting total voting power of a shareholder is equal to the number of shareholders multiplied by number of directors to be elected and can be used for one or more directors.

4.2 Major Findings

-) With respect to the meaning and definition of corporate governance majority of respondents opined that its all about Transparency some went for the controlling of managerial deficiencies and few of them felt it's about good relation with stakeholders.
-) With respect to the present pace of corporate governance practices in Nepalese financial institutions, the majority of the respondents have felt that corporate governance practice is good. While some of the respondents have opinion that the present pace of corporate governance practice in financial sector is good and some said it's weak. One of the respondents said that the pace of corporate governance is very good but none of them felt it's very weak.
-) Most of the respondents agreed that banking and financial sector has relatively good level of corporate governance practice while few of them said that manufacturing and service sector has good practice of corporate governance. But more than 93% of respondents are of view that banking and financial institutions has good corporate governance.
-) Majority of the respondents are of opinion that the ideal number of board members should be four to eight. And they should meet for six to ten times in a fiscal year in a Normal situation. Some of them went for the opinion that the board should be of 9 to 13 members and they should meet 11 to 15 times in a year.
-) Regarding the statement that better corporate governance involves strengthening institution enacting regulation building administrative and monitoring capacity and political support, the majority of respondents agreed.
-) With respect to good corporate governance is a source of competitive advantages, the majority of respondents felt that good corporate governance of financial institutions is a source of competitive advantage and it supports to economic and social progress.
-) With respect to the statement that good corporate governance will reduce misallocation of resources, majority of the respondents agreed.
-) Majority of respondents agreed that competition among financial institutions will lead to better corporate governance practice in those corporations. But some of the respondents were of the opinion that competition among those financial institutions doesn't promote good corporate governance because they think that competition can lead to wrong business practice sometimes.
-) Majority of the respondents are of the view that qualified members who can judge the affairs of the financial sector are no appointed in board as much as required. Some of the respondents agreed that board members are qualified enough to handle all sort of company affairs.

-) With respect to the question whether investors would pay more for the securities of company practicing good corporate governance, the majority of respondents agreed. They also agreed that good corporate governance practice would promote securities market in Nepal through the promotion of securities trade itself.
-) Regarding the elements of corporate governance practices, majority of respondents gave first priority to timely and accurate disclosure and transparency followed by participation of shareholders in company affairs. Third ranking is occupied by diligent exercise of responsibilities by board members and then comes protection of shareholders rights mainly non managerial employees have stressed in the accurate disclosure, transparency and participation of shareholders in company affairs.
-) Majority of respondents hold the view that lack of qualified board members in the board of directors is the main problem of good corporate governance promotion in financial institutions of Nepal followed by weak legal and regulatory frameworks. Respondents have felt the absence of sufficient institutional investors to promote better corporate governance.
-) With respect to the question who is more responsible for promoting good corporate governance practices in banks and financial institutions of Nepal, majority of respondents gave first priority to the NRB. Mere formulating laws and regulations will be useless if the corporate sector does not follow it. So according to respondents, corporate sectors is the second important governing body for promoting good corporate governance practices followed by Company registrar's office shareholders.

So for the observation on the present state of corporate governance in financial institutions of Nepal, viewed by all respondents are concerned mainly non managerial employees agreed that corporate governance can be improved significantly while respondents disagreed that institutional investors are putting best effort to promote corporate governance and well qualified board members are needed to look after the rights of minorities.

CHAPTER V

SUMMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Corporate governance refers to the manners in which a corporation is directed and costumes affecting those decisions. It includes the law governing the formation of firms, the bylaws established by the firm itself and the structures of the firm. The corporate governance structure specifies the relation and the distribution of rights and responsibilities among primarily three groups of participants, the Board of Directors, Managers and Shareholders. The system spells out the rules and procedures for making decisions on corporate affairs. It also provides the structure through which the company objectives are set as well as the means of monitoring the performance of those objectives oriented activities. In an era of increasingly integrated financial market global competition and technological progress, corporate governance matters to firms because it helps to determine their capacities to attract the financial and human resources need for investment. It matters for investors who are looking for more affective management decision making as a means to improve company performance. It matters to government because the performance of enterprise sector is a key determinant of progress in income and welfare of country.

This study mainly focuses at the analyzing the issues and practice level of corporate governance in financial institutions of Nepal. Its specific objectives are:

-) To familiarize with the concept and issues of corporate governance.
-) To analyze corporate governance patterns in Nepalese financial institutions.
-) To identify the problems of good corporate governance in Nepalese financial sector.
-) To assess existing legal provisions regarding good corporate governance practice.
-) To examine the opinions and views of listed banking and financial company's employees and governing bodies employees on corporate governance practices in Nepal.

Out of total 60 respondents, 28were managerial level employees and 32 were non managerial level employees. Those two groups of respondents were asked to give their opinions and views on the statement and points as mentioned in the structured questionnaire based on their knowledge on corporate governance. The responses of those all respondents were analyzed to ascertain the differences in their views about the corporate governance practices and various statistical tools were used to help the total task as well.

5.2 Conclusions

Corporate governance is an emerging issue in the global context. Transparency, fair dealing and following of ethical standards with effective level of internal control are some of the fundamentals of the corporate governance. Even as fundamental of corporate governance are the same for all sectors of the business world. Banking and financial sector has huge implication for the wider economy. A significant position of the country's wealth is tied up with financial institutions in the form of deposit and equity. The basic responsibility of maintaining good corporate governance practice lies with the organization itself. But having said that we except from other stakeholders who are related with the organization go by ethical norms is not enough they must be followed in the true sense. Healthy competition can serve as a key drive of good governance by way of increased market demand. For better transparency and accountability, legal frameworks are expected to be important legislation towards improving corporate and financial governance in Nepal. The provision regarding disclosure, director's responsibilities, good corporate governance including financial governance and the specific shareholder's rights and other capital market provisions are forwarded looking and favorable for the growth of a transparent corporate sector. This survey of 'corporate governance in financial institutions' shows that the pace of corporate governance in financial sector is at good pace. The main reason of poor corporate governance is lack of qualified board members. Slowly but surely financial institutions of Nepal are working towards improving their governance standards.

5.3 Recommendations

The recommendations stated are based on primary data analysis and major findings. The recommendations which are recommended are as below:

- i) Corporate governance adopted by the business corporations should emphasize ; a) transparency and accountability, b) the need to incorporate the diversity in corporate governance in response to expand business operations, c) Social responsibility, d) recognition of the strategic role of corporate governance, e) speedy and ability to make corporate governance functions.
- ii) The company should motivate the employees to participate in decision making as corporate governance can be improved significantly if employees are made participate in the decision making process.
- iii)The country should improve and regulate framework to expand the corporate governance practices.
- iv)The company should formulate the minimum standard of corporate governance design to promote the fairness, transparency, accountability and responsibility and BODs should encourage the development and adoption of

voluntary corporate governance best practices and ensure the independent oversight of the management.

Future Awareness:

There are several avenues for future research in the area of corporate governance in financial sectors. One extension of the present study is to analyze secondary data using various regression analyses. A second avenue of research is to examine the corporate governance issues, practices and significance in the non financial sector. Third avenue of research is to compare the corporate governance situation in the financial sector with non-financial sectors and final avenue of research is to conduct study on corporate governance in the state owned enterprises.

Bibliography

- Abraham, S. and bhande, A. 1998, "The Board Room Awakeninmg", Business India Sep. (Cited in Sigdel, B.R.:Corporate Performance and Board of Directors unpublished Master Thesis, MBS, and T.U. 2002).
- Adams, John, Maskey B.K., Tuladhar Sugandha eds (2001). "Corporate Governance in Nepal." CFDG and Focal Point of Financial Sector Reform.
- Ajinkya B. Bhojraj S. and Sengupta, P (1999) "The Effect of Corporate Governnace on Disclosure", Gaineville, University of Florida.
- Anonymus (2004) "Strategic decision: towards good corporate governance", Emerald group Publishing Ltd., Vol.20, No: 9.
- Arington B Gautam, K and Mc Cable, W.J. (1995) "Continually improving governance hospital and health service administration". vol 4, No. 1, PP-90.
- Bader B.S. (1991) "Five tip to building on excellent governing board", Rock villey hospital Trustee Association of Pennsylvia.
- Bhattarai, AR (2006) "Corporate Governance, A balance between autonomy and accountability", Journal of ICAN pp:23- 24.
- Bhoj Raj, S. and Sengupta, P. 2003, "Effects of Corporate Governance on Bond Rating and Yields: The Role of Institutional Investors and Outside Directors", Journal of Business, vol. 16, No. 3, The University of Chicago.
- Carver J. (1990) "Board that makes difference" San Francisco Publication.
- Chamlou, N; (2000); "Corporate Governance: A Framework for Implementation," The World Bank Group Washington D.C.
- Chistraca, k (2006, March) "Company law reform and accounting profession", Journal of ICAN, PP 5-9.

Dhungel, D.P.(2002), “Corporate Governance and Capital.

Iskander, Magdi R., Chamlou, Nadereh with a foreward by Sir Adrain Cadbury (2000), “Corporate Governance: A Framework for Implementation.”

Mark: Corporate Govenance in Nepal,” Focal Point for Financial Sector Reform.

Miysaka, Soichi; (2003), “APO Top Management Forum on Corporate Governance”, Session III on ‘Corporate Governance from the viewpoint of Investors.’

World Bank (2002), “Nepal: Financial Sector Study’ Private Sector Finance Division SASEP, South Asian Region, World Bank.

Appendix A

Date:

Dear Respondent,

This Research study titled “**Corporate Governance in Financial Institutions of Nepal**” is undertaken to meet the requirement of MBS degree of Shanker Dev Campus under TU. I therefore kindly request you to spare a few minutes of your valuable time to fill in this Questionnaire.

The information that you furnished will be used for Academic purpose only. Your identity will not be disclosed as the data will appear in the report in the aggregate form. I assure you that the given information will be used only for research purpose and will be kept strictly confidential.

Respondent’s name:

Respondent’s position:

Organization:

Questionnaire:

1. For you what does Corporate Governance means?

[a] Transparency.

[b] Best performance.

[c] Controlling management deficiencies.

[d] Good relationship with stakeholders.

2. Which of the following sector of Nepal do you think has the best Corporate Governance practice?(Please tick mark for the most appropriate option)

- [a] Manufacturing/ Processing sector. [b] Banking/ Financial sector.
[c] Service sector. [d] Trading sector.
[e] Others. (Please specify)

3. What do you think is the current pace of Corporate Governance in Financial Sector of Nepal? (Please tick mark for the most appropriate option)

- [a] Very good. [b] Good.
[c] Satisfactory. [d] Weak.
[e] Very weak.

4. To whom do you think the Company Directors are responsible? (Please tick mark for the most appropriate option.)

- [a] To shareholders. [b] To Employees.
[c] To Management. [d] To Society and the
Government.
[e] Others. (Please specify)

5. What should be the ideal number of members in Board of Directors? (Please tick mark for the most appropriate option)

- [a] Less than 4. [b] 4 to 8.
[c] 9 to 13. [d] 14 and above.

6. What should be the Frequency of the Board Meeting in a normal situation in a Fiscal Year? (Please tick mark for the most appropriate option)

[a] Less than 6.

[b] 6 to 10.

[c] 11 to 15.

[d] 16 and above.

7. How do you view the current way of holding Annual General Meetings in Financial Institutions of Nepal? (Please tick mark the most appropriate option)

[a] As a necessary evil.

[b] Just for Statutory Requirement.

[c] As an Effective Forum for the Shareholders to give Directions in charting the Objectives of the Company.

[d] Others. (Please specify)

8. Do you agree with the following statement? (Please mark a tick for the most appropriate option)

[a] Better Corporate Governance involves Strengthening & developing Institutions, Enhancing regulations, and building Administrative & Monitoring capacity and Political support.

i) yes

ii) no

iii) I don't know

[b] Good Corporate Governance is the source of Competitive Advantage.

i) yes

ii) no

iii) I don't know

[c] Corporate Governance can reduce Misallocation of Resources and Improves the Firm's Productivity.

i) yes

ii) no

iii) I don't know

[d] Competition among Financial Institutions leads to better Corporate Governance Practices.

i) yes ii) no iii) don't know

[e] Most of the Board Members of Financial Institutions of Nepal are Qualified enough to exercise sound Judgment about the Affairs of Organization.

i) yes ii) no iii) don't know

[f] Investors will pay more for the Securities of Companies practicing Corporate Governance, other things being constant.

i) yes ii) no iii) I don't know

9. Do you think the following elements of Corporate Governance are being practiced in Financial Institutions of Nepal? If yes, which one is the most frequently practiced one? (Please tick mark for the most appropriate option)

[a] Protection of Shareholder's Rights.

[b] Timely and Accurate Disclosure and Transparency.

[c] Participation of Shareholders in Company's Affairs.

[d] Diligent Exercise of the Board of Director's Responsibilities.

[e] Corporate Culture emphasizing Sense of Accountability.

10. Who do you think is more responsible for the Promotion of good Corporate Governance in Nepalese Financial Institutions? (Please tick mark for the most appropriate option)

[a] Company Registrar's Office.

[b] Security Exchange Board of Nepal and NEPSE.

[c] Shareholders.

[d] Institute of Chartered Accountants of Nepal. (ICAN)

[e] Corporate Body (Board of Directors).

[f] Nepal Rastra Bank.

[g] Others. (Please specify)

11. What do you think is the main Problem of Corporate Governance in Financial Institutions of Nepal? (Please tick mark for the most appropriate option)

[a] Weak Legal and Regulatory System/ Framework.

[b] Inconsistent Accounting and Auditing Standards.

[c] Less importance is given to Minority Shareholders.

[d] Lack of Qualified Board Members.

[e] Lack of Sufficient Institutional Investors who can guide better Governance.

Finally,

Your kind Co-operation and Support will be highly acknowledged.

Thank you.

Singh Surendra Mohan

Shanker Dev Campus, Kathmandu

Respondent's Signature

QSN-1

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	16	12	28
b	2	3	5
c	12	9	21
d	2	4	6
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(4-1)*(2-1)=3$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
16	14.9333 3	1.06666 7	1.13777 8	0.07619047 6
2	2.66666 7	-0.66667	0.44444 4	0.16666666 7
12	11.2	0.8	0.64	0.05714285 7
2	3.2	-1.2	1.44	0.45
12	13.0666 7	-1.06667	1.13777 8	0.08707483
3	2.33333 3	0.66666 7	0.44444 4	0.19047619
9	9.8	-0.8	0.64	0.06530612 2
4	2.8	1.2	1.44	0.51428571 4
Chi-Square Value				1.60714285 7

QSN-2

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	2	0	2
b	28	28	56
c	1	0	1
d	1	0	1
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(4-1)*(2-1)=3$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
2	1.066667	0.933333	0.871111	0.816666667
28	29.866667	-1.866667	3.484444	0.116666667
1	0.533333	0.466666	0.217777	0.408333333
1	0.533333	0.466666	0.217777	0.408333333
0	0.933333	-0.933333	0.871111	0.933333333
28	26.133333	1.866666	3.484444	0.133333333
0	0.466666	-0.466667	0.217777	0.466666666
0	0.466666	-0.466667	0.217777	0.466666666
Chi-Square Value				3.75

QSN-3

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	1	0	1
b	15	15	30
c	12	10	22
d	4	2	6
e	0	1	1
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(5-1)*(2-1)=4$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
1	0.53333 3	0.46666 7	0.21777 8	0.40833333 3
15	16	-1	1	0.0625
12	11.7333 3	0.26666 7	0.07111 1	0.00606060 6
4	3.2	0.8	0.64	0.2
0	0.53333 3	-0.53333	0.28444 4	0
0	0.46666 7	-0.46667	0.21777 8	0.46666666 7
15	14	1	1	0.07142857 1
10	10.2666 7	-0.26667	0.07111 1	0.00692640 7
2	2.8	-0.8	0.64	0.22857142 9
1	0.46666 7	0.53333 3	0.28444 4	0
Chi-Square Value				1.37213203
$\chi^2 = \sum \frac{(O-E)^2}{E}$				5

QSN-4

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	15	17	32
b	10	6	16
c	4	3	7
d	3	2	5
e	0	0	0
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(5-1)*(2-1)=4$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
15	17.06667	-2.06667	4.271111	0.250260417
10	8.533333	1.466666	2.151111	0.252083333
4	3.733333	0.266666	0.071111	0.019047619
3	2.666666	0.333333	0.111111	0.041666666
0	0	0	0	0
17	14.93333	2.066666	4.271111	0.286011905
6	7.466666	-1.466667	2.151111	0.288095238
3	3.266666	-0.266667	0.071111	0.021768707
2	2.333333	-0.333333	0.111111	0.047619048
0	0	0	0	0
Chi-Square Value				0.896688988
=d19` >V: C@/n1N				8

QSN-5

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	0	0	0
b	28	17	45
c	4	9	13
d	0	2	2
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(4-1)*(2-1)=3$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
0	0	0	0	0
28	24	4	16	0.666666667
4	6.933333333	-2.933333333	8.604444444	1.241025641
0	1.066666667	-1.066666667	1.137777778	1.066666667
0	0	0	0	0
17	21	-4	16	0.761904762
9	6.066666667	2.933333333	8.604444444	1.418315018
2	0.933333333	1.066666667	1.137777778	1.219047619
Chi-Square Value				6.373626374
$\chi^2 = \sum \frac{(O-E)^2}{E}$				4

QSN-6

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	2	0	2
b	16	14	30
c	14	12	26
d	0	2	2
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(4-1)*(2-1)=3$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
2	1.06667	0.93333	0.87111	0.81666667
16	16	0	0	0
14	13.86667	0.13333	0.01777	0.00128205
0	1.06667	-1.06667	1.13777	1.06666667
0	0.93333	-0.93333	0.87111	0.93333333
14	14	0	0	0
12	12.13333	-0.13333	0.01777	0.00146520
2	0.93333	1.06666	1.13777	1.21904761
Chi-Square Value				4.03846153
$\chi^2 = \sum \frac{(O-E)^2}{E}$				8

QSN-7

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	4	3	7
b	9	9	18
c	18	15	33
d	1	1	2
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(4-1)*(2-1)=3$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
4	3.73333	0.26666	0.07111	0.01904761
3	3	0	0	0
9	9.6	-0.6	0.36	0.0375
18	17.6	0.4	0.16	0.00909090
1	1.06666	-0.06667	0.00444	0.00416666
7	3.26666	-0.26667	0.07111	0.02176870
3	3	0	0	0
9	8.4	0.6	0.36	0.04285714
15	15.4	-0.4	0.16	0.01038961
1	0.93333	0.06666	0.00444	0.00476190
3	3	0	0	0
7	7	0	0	0
4	4	0	0	0
5	5	0	0	0
Chi-Square Value				0.14958256
=d19` >V: C@Vn1N				

QSN-8.1

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	27	28	55
b	3	0	3
c	2	0	2
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(3-1)*(2-1)=2$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
27	29.3333 3	-2.33333	5.44444 4	0.18560606 1
3	1.6	1.4	1.96	1.225
2	1.06666 7	0.93333 3	0.87111 1	0.81666666 7
28	25.6666 7	2.33333 3	5.44444 4	0.21212121 2
0	1.4	-1.4	1.96	1.4
0	0.93333 3	-0.93333	0.87111 1	0.93333333 3
Chi-Square Value				4.77272727
$=d19^ >V: @\sqrt{n}N$				3

QSN-8.2

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	30	25	55
b	2	2	4
c	0	1	1
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(3-1)*(2-1)=2$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
30	29.3333 3	0.66666 7	0.44444 4	0.01515151 5
2	2.13333 3	-0.13333	0.01777 8	0.00833333 3
0	0.53333 3	-0.53333	0.28444 4	0.53333333 3
25	25.6666 7	-0.66667	0.44444 4	0.01731601 7
2	1.86666 7	0.13333 3	0.01777 8	0.00952381
1	0.46666 7	0.53333 3	0.28444 4	0.60952381
Chi-Square Value				1.19318181
$=d19^ >V: @\sqrt{n}N$				8

QSN-8.3

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	30	22	52
b	1	2	3
c	1	4	5
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(3-1)*(2-1)=2$$

QSN-8.4

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	17	18	35
b	7	8	15
c	8	2	10
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(3-1)*(2-1)=2$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
30	27.7333 3	2.26666 7	5.13777 8	0.18525641
1	1.6	-0.6	0.36	0.225
1	2.66666 7	-1.66667	2.77777 8	1.04166666 7
22	24.2666 7	-2.26667	5.13777 8	0.21172161 2
2	1.4	0.6	0.36	0.25714285 7
4	2.33333 3	1.66666 7	2.77777 8	1.19047619
Chi-Square Value				3.11126373
$=\sum \frac{(O-E)^2}{E}$				6

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
17	18.6666 7	-1.66667	2.77777 8	0.14880952 4
7	8	-1	1	0.125
8	5.33333 3	2.66666 7	7.11111 1	1.33333333 3
18	16.3333 3	1.66666 7	2.77777 8	0.17006802 7
8	7	1	1	0.14285714 3
2	4.66666 7	-2.66667	7.11111 1	1.52380952 4
Chi-Square Value				3.44387755
$=\sum \frac{(O-E)^2}{E}$				1

QSN-8.5

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	5	12	17
b	20	10	30
c	7	6	13
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(3-1)*(2-1)=2$$

CHI-SQUARE CALCULATION

O	E	O-E	(O-E) ²	(O-E) ² /E
5	9.066667	-4.066667	16.53778	1.824019608
20	16	4	16	1
7	6.933333	0.066667	0.004444	0.000641026
12	7.933333	4.066666	16.53778	2.084593838
10	14	-4	16	1.142857143
6	6.066666	-0.066667	0.004444	0.000732601
Chi-Square Value				6.052844215

QSN-8.6

CHI-SQUARE CALCULATION

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	21	19	40
b	7	5	12
c	4	4	8
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(3-1)*(2-1)=2$$

O	E	O-E	(O-E) ²	(O-E) ² /E
21	21.3333	-0.33333	0.11111	0.00520833
7	6.4	0.6	0.36	0.05625
4	4.26666	-0.26667	0.07111	0.01666666
19	18.6666	0.33333	0.11111	0.00595238
5	5.6	-0.6	0.36	0.06428571
4	3.73333	0.26666	0.07111	0.01904761
Chi-Square Value				0.16741071
=d19 > V: C@/n1N				4

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	1	0	1
b	20	15	35
c	6	10	16
d	4	2	6
e	1	1	2
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(5-1)*(2-1)=4$$

O	E	O-E	(O-E) ²	(O-E) ² /E
1	0.533333	0.466667	0.217778	0.408333333
15	18.666667	-3.666667	13.444444	0.720238095
12	8.533333	3.466666	12.017778	1.408333333
4	3.2	0.8	0.64	0.2
0	1.066666	-1.066667	1.137778	0
0	0.466666	-0.466667	0.217778	0.466666666
15	16.333333	-1.333333	1.777778	0.108843529
10	7.466666	2.533333	6.417778	0.85952381
2	2.8	-0.8	0.64	0.228571429
1	0.933333	0.066666	0.004444	0
Chi-Square Value				3.43214285
$\chi^2 = \sum \frac{(O-E)^2}{E}$				7

QSN-10

CHI-SQUARE CALCULATION

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	6	4	10
b	3	2	5
c	2	4	6
d	2	1	3
e	7	7	14
f	12	10	22
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(6-1)*(2-1)=5$$

O	E	O-E	(O-E) ²	(O-E) ² /E
6	5.33333	0.66666	0.44444	0.0833333
3	2.66666	0.33333	0.11111	0.0416666
2	3.2	-1.2	1.44	0.45
2	1.6	0.4	0.16	0.1
7	7.46666	-0.46667	0.21777	0.0291666
12	11.73333	0.26666	0.07111	0.0060606
4	4.66666	-0.66667	0.44444	0.0952380
2	2.33333	-0.33333	0.11111	0.0476190
4	2.8	1.2	1.44	0.5142857
1	1.4	-0.4	0.16	0.1142857
7	6.53333	0.46666	0.21777	0.0333333
10	10.26666	-0.26667	0.07111	0.0069264
Chi-Square Value				1.37905844
$\chi^2 = \sum \frac{(O-E)^2}{E}$				2

QSN-11

CHI-SQUARE CALCULATION

OPTION S	NON MANAGERIAL	MANAGERIAL	TOTAL
a	5	8	13
b	1	2	3
c	2	1	3
d	18	12	30
e	6	5	11
TOTAL	32	28	60

DEGREE OF FREEDOM(df)=(r-1)*(c-1)

$$df=(5-1)*(2-1)=4$$

O	E	O-E	(O-E) ²	(O-E) ² /E
5	6.93333	-1.93333	3.73777	0.53910256
1	1.6	-0.6	0.36	0.225
2	1.6	0.4	0.16	0.1
18	16	2	4	0.25
6	5.86666	0.13333	0.01777	0.00303030
8	6.06666	1.93333	3.73777	0.61611721
2	1.4	0.6	0.36	0.25714285
1	1.4	-0.4	0.16	0.11428571
12	14	-2	4	0.28571428
5	5.13333	-0.13333	0.01777	0.00346320
Chi-Square Value				2.02242757
$\chi^2 = \sum \frac{(O-E)^2}{E}$				2