

CORPORATE GOVERNANCE AND PERFORMANCE OF HYDROPOWER COMPANIES IN NEPAL

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CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Corporate Governance and Performance of Hydropower Companies in Nepal**” The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

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

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ABBREVIATIONS

AD	:	Anno Domini
ATM	:	Automated Tailor Machine
BS	:	Bikram Sambat
C.L	:	Current Liabilities
CA	:	Current Assets
CXC	:	Expectative compensation
e.g.	:	Example
EPS	:	Earning Per Share
F/Y	:	Fiscal Year
HYD	:	Hydropower
i.e.	:	That is
IT	:	Information Technology
Ltd	:	Limited
NRB	:	Nepal Rastra Bank
ROA	:	Return on Assets
ROE	:	Return on equity
SD	:	Standard Deviation
T.A	:	Total Assets
TU	:	Tribhuvan University

ABSTRACTS

The main purpose of the study is to examine the This thesis, titled Corporate Governance and Performance of Hydropower Companies in Nepal, aims to explore the corporate governance practices and their impact on the financial performance of hydropower companies in Nepal. The review of literature reveals that corporate governance practices such as board diversity, audit committee independence, and gender diversity have varying effects on financial performance across different sectors and countries. Using correlation and regression analyses, the study examines the relationship between governance variables Board Size (BS), Audit Committee Size (ASC), Long-term Debt Ratio (LTDR), Audit Committee (AC), and Executive Compensation (EXC) and financial performance metrics such as Return on Assets (ROA) and Return on Equity (ROE). The findings indicate that ASC and AC have a significant positive impact on ROA, while BS and LTDR show a negative and positive relationship with ROE, respectively. However, variables like EXC and AC do not have a statistically significant effect on performance in either model. This suggests that while certain governance practices are important, their impact may be limited by external factors such as market conditions, regulatory frameworks, and company-specific characteristics. Overall, the study highlights the need for tailored governance practices that align with the unique operational context of hydropower companies in Nepal.

Keywords: Return on assets, Return on Equity, age of sample company corporate governance.

CHAPTER-I

INTRODUCTION

1.1 Background of the study

Corporate governance encompasses the system of rules, practices, and processes by which a company is directed and controlled. It is crucial for ensuring transparency, accountability, and sustainable development within organizations. In Nepal's hydropower sector, effective corporate governance is particularly important due to the sector's significant economic contribution and growth potential, given the country's abundant water resources. Nepal's hydropower companies face unique challenges and opportunities, necessitating strong corporate governance. The sector involves substantial investments, long development periods, and various environmental and social impacts. Proper governance helps these companies attract and manage investments, comply with regulatory requirements, and address stakeholders' concerns effectively. Research indicates that good corporate governance practices can significantly enhance the performance of hydropower companies by improving operational efficiency, access to capital, and investor confidence. In Nepal, where the hydropower industry is still developing, robust corporate governance frameworks can help mitigate risks and promote sustainable growth. Therefore, the relationship between corporate governance and the performance of hydropower companies in Nepal is a critical area of focus. Effective governance leads to better management, increased investor confidence, and superior sector performance. As Nepal continues to harness its hydropower potential, the emphasis on corporate governance will remain integral to achieving long-term success. For instance, Shrestha (2021) highlighted the importance of transparency and accountability in the governance practices of Nepali hydropower companies, demonstrating a positive correlation between good governance and improved financial performance.

Corporate governance principles and procedures are vital for boosting operational productivity and growth. Implementing robust governance standards and processes ensures better oversight, efficient regulation, and long-term improvement in hydropower

performance and sustainability. Key elements of corporate governance include the responsibilities assigned to the board of directors in oversight, monitoring, and strategic guidance. Following incidents like corruption and business failures, corporate governance has become a critical topic in both advanced and developing nations (Al-ahdal, et al., 2020). It is especially relevant for publicly traded corporations with many shareholders who are not involved in daily operations and do not have full access to information. Corporate governance defines the roles and incentives of the involved parties. While various studies refer to different frameworks of corporate governance, agency theory is often considered the theoretical foundation (Saini & Singhania, 2018). Corporate governance addresses issues arising in the relationship between investors (shareholders) and the executive board (Pillai & Al-malkawi, 2017).

Corporate governance involves the processes, structures, practices, and procedures, as well as the formal and informal rules that guide organizations, the enforcement and implementation of these rules, the relationships established by these rules and regulations, and the nature of those relationships (Kiradoo, 2019). It also addresses leadership positions within the institutional system. Therefore, corporate governance refers to how a company's authority is exercised in controlling the overall portfolio of assets and resources to preserve and enhance investor value and protect the interests of other stakeholders in line with the company's goals. From a public policy standpoint, corporate governance involves operating an entity while maintaining transparency in the exercise of power and patronage (Ullah, 2020).

Researchers have extensively focused on financial outcomes, especially in accounting and planning management. This focus is understandable, as financial performance affects a company's stability and long-term sustainability. Financial performance reflects an organization's efficient and effective use of resources to achieve its objectives, leading to increased share prices, revenue, profitability, market share, earnings, and cash flow while meeting the needs of various stakeholders. It measures the achievement of a company's economic goals and relates to different subjective metrics of how well a company utilizes its assets to generate profit from its primary activities. Financial efficiency has been a longstanding concern in managerial discussions. Yılmaz (2018) defined a company's

value as the current worth of expected cash flows, adjusted for risk at an acceptable rate of return.

The OECD Corporate Governance Principles serve as a common foundation for OECD Member States and are considered crucial for implementing good governance mechanisms. There is a clear link between corporate governance and financial performance; inadequate governance structures lead to suboptimal results. According to Hussain et al. (2019), the relationship between corporate governance and company performance arises because effective corporate governance reduces the likelihood of a company failing to meet stakeholder expectations. The lack of proper corporate governance is particularly detrimental to maintaining high-performance standards, as it is essential for orchestrating effective management. This ensures that stakeholders can trust that their investments will yield optimal returns (Osundina et al., 2016).

Corporate governance plays a crucial role in shaping the performance of hydropower companies by enhancing transparency, accountability, and strategic decision-making. In 2024, hydropower firms are increasingly focusing on robust governance structures to improve financial performance and stakeholder trust. This trend is driven by heightened regulatory scrutiny and the need for sustainable business practices amid the global push for renewable energy. Effective governance frameworks are linked to better risk management and operational efficiency, leading to improved financial metrics and market competitiveness. Companies like Enel have shown significant improvement in governance, with increased mentions of governance in their filing. National Hydro Power Company Limited has also seen a focus on governance impacting its stock performance and financial outcomes positively. These insights underscore the importance of corporate governance in driving the success of hydropower companies in the dynamic energy sector of (Al-ahdal, et al.2024).Therefore, this study examines Corporate governance and performance of hydropower companies in Nepal.

1.2 Problems statement

The board of directors is considered a crucial element of governance, and boards are consistently held accountable for the hydropower companies they oversee. High-profile corporate failures have raised significant concerns about the effectiveness of boards in

protecting investors' interests, leading to substantial economic losses. Consequently, many contemporary corporate governance reforms (including codes, recommendations, and regulations) focus on improving corporate governance by enhancing board performance. Despite the belief that boards of directors are essential to a corporation's survival, the actual functioning of board's remains relatively poorly understood

Recent studies by Sharma (2024) had highlighted that robust corporate governance practices are crucial for enhancing the performance of hydropower companies in Nepal. These practices help in mitigating risks, improving financial accountability, and fostering investor confidence. Sharma's research emphasizes the need for hydropower companies to adopt more stringent governance measures to align with global standards and improve their operational efficiency.

Companies typically seek to understand how board characteristics influence financial performance to minimize the risk of bankruptcy, increase earnings, and manage or reduce business expenditures. To make these decisions, they often rely on historical data. This research aims to investigate the impact of corporate governance on return on assets, return on equity, free cash flows, and market value added for Nepalese hydropower companies. Given the lack of research in Nepal on the relationship between corporate governance and financial performance, this study seeks to address this gap (Hussain, et al. 2019).

This study highly focused on following statements.

- i. Are there major corporate governance practices in hydropower companies in Nepal?
- ii. Do corporate governance practices relate the performance of hydropower companies in Nepal?
- iii. What is the impact of board size, executive compensation, and audit committees on the performance of hydropower companies in Nepal?

1.3 Objectives of the study

The major objectives of the study are to examine the impact of corporate governance on performance of hydro power companies in Nepal. The specific objectives of the study are listed below:

- i. To assess the corporate governance practices in hydropower companies in Nepal.
- ii. To analyze the relationship of corporate governance practices on the performance of hydropower companies in Nepal.
- iii. To evaluate the impact of board size, executive compensation, and the presence of audit committees on the performance of hydropower companies in Nepal.

1.4 Rational of the study

The study of the impact of corporate governance on hydro power companies in Nepal is a significant research endeavor for several reasons:

Hydropower as a National Priority and Hydropower is a critical sector for Nepal due to its vast potential for generating renewable energy. As a landlocked country with significant water resources, hydropower represents a key opportunity for economic development, energy security, and export potential. Economic Contribution The hydropower sector significantly contributes to Nepal's economy through investment, job creation, and by reducing dependence on imported energy. Corporate Governance Relevance on Efficiency and Performance Good corporate governance practices are essential for the efficient and effective operation of companies. In the context of hydropower companies, this translates to better project management, financial performance, and sustainability. Risk Management Hydropower projects are capital-intensive and involve long-term investments with considerable risks, including environmental, social, and political risks. Strong corporate governance helps in identifying, mitigating, and managing these risks. Investor Confidence on Attracting Investment Sound corporate governance enhances investor confidence by ensuring transparency, accountability, and protection of shareholder interests. This is crucial for attracting both domestic and international investments necessary for the development and

expansion of hydropower projects. Financial Performance Effective governance can lead to better financial health of the companies, making them more attractive to investors and lenders. Regulatory and Policy Environment Regulatory Compliance Analyzing corporate governance in hydropower companies can provide insights into how well these companies comply with national and international regulations and standards. This can inform policy-makers about areas needing reform or additional support. Policy Development The study can help in shaping policies that promote better governance practices, thereby enhancing the overall efficiency and effectiveness of the sector.

Sustainable Development Goals (SDGs) Environmental and Social Governance Hydropower companies have significant environmental and social impacts. Good governance ensures that these impacts are managed responsibly, aligning with global standards such as the UN's Sustainable Development Goals (SDGs). Sustainable Energy By improving governance, hydropower companies can contribute to sustainable energy goals, including affordable, reliable, and sustainable energy for all.

Local Context and Challenges on Nepal-Specific Challenges the unique political, economic, and social landscape of Nepal presents specific challenges for corporate governance. Studying these within the hydropower sector can reveal critical insights and tailor solutions that are contextually relevant.

Case studies and best practices the study can highlight successful case studies and best practices within Nepal, providing a model for other sectors and regions. Knowledge contribution academic contribution this research can fill gaps in the existing literature on corporate governance in developing countries, particularly in the renewable energy sector. It contributes to the academic discourse by providing empirical evidence and insights from Nepal. Practical applications findings from the study can offer practical recommendations for hydropower companies, investors, regulators, and policymakers to enhance governance standards and practices. In summary, studying the impact of corporate governance on hydropower companies in Nepal is essential for maximizing the potential of the hydropower sector, ensuring sustainable and responsible development, and enhancing overall economic growth. It provides a comprehensive understanding of how governance practices influence operational efficiency, risk management, financial

performance, and regulatory compliance, all of which are critical for the sector's long-term success and contribution to national development goals.

1.5 Limitations of the Study

The limitations of this study are listed below:

- The study based on only the past years periods since F/Y 2012/13 to F/Y 2022/23.
- The study mainly focuses on the impact of corporate governance on performance Hydropower companies.
- The study is based on secondary data such as annual report, financial statement etc. Inaccessibility of information which could have helped to analyze other aspects of corporate governance on performance hydropower companies functioning as well.
- This study only focus on performance variable and others are ignored.
- Only limited financial and statistical tools are used for analysis.

CHAPTER II

LITERATURE REVIEW

The goal of this chapter is to present fundamental concepts related to hydropower companies and the views of various notable authors through books, journals, and research papers. It includes reviews of independent studies, unpublished theses, articles, and journals, providing a background for the research work and guidelines for future inquiries. The following subject matters are covered under this topic.

- i. Theoretical review
- ii. Empirical Review
- iii. Research Gap

2.1 Theoretical review

The Stockholder Model

The Stockholder Model, also known as the 'one-tier model', 'US model', or 'Anglo-American model', is based on agency theory and operates on several foundational assumptions. Firstly, agency costs arise due to decentralized ownership in modern corporations (Taşkırmaz & Bal, 2016). This ownership structure, characterized by the free-rider problem, is a prerequisite for the existence of the shareholder-focused corporate governance model in developed countries. Secondly, the stockholder model relies on a well-established and efficient legal system because shareholders require robust legal protection in companies with dispersed ownership. Fragmented shareholders lack sufficient power or incentives to effectively oversee managers (Kirsch, 2018).

Thirdly, a reliable professional accounting and auditing framework is essential to ensure transparency and accuracy in financial reporting to shareholders (Lee, 2007). Fourthly, the model assumes that an effective stock market provides managers with incentives to act in the best interests of shareholders (Adams, 2016).

Fifthly, liquid markets are necessary to allow shareholders to quickly and inexpensively sell their shares if they are dissatisfied with company performance (often referred to as 'voting with their feet'). Lastly, competitive market conditions compel companies to

continually enhance efficiency and growth, with a significant number of competitors stimulating managerial efforts (Shleifer & Vishny, 1997). Given these incentives, the adoption of robust governance structures is encouraged, typically through voluntary corporate governance codes tailored to the shareholder model (Siddiqui, 2010).

The Stakeholder Model

The stakeholder model, also known as the 'Western European model' (Siddiqui, 2010) or the 'German model' (Choudhury, 2014), is synonymous with the 'two-tier model' (Gordini & Rancati, 2017). In this model, the management committee serves as a 'mediating hierarchy', responsible for balancing the diverse interests of various groups involved in public companies (Blair & Stout, 2001; Freeman, 1984). Shareholders are considered just one among several stakeholders whose interests merit attention (Adams et al., 2011; Freeman, 1984). Directors' duties extend beyond maximizing shareholder value alone. Instead, the stakeholder model emphasizes four primary corporate governance roles aimed at harmonizing the conflicting interests of all stakeholders (Freeman & Reed, 1983). These roles encompass strategy formulation, policy-making, transparency, and oversight management (Makki & Lodhi, 2013).

Under this structure, governance is overseen by two boards: the Supervisory Board (SB) and the Board of Management (BoM). The SB holds the governance role, responsible for appointing and dismissing the BoM, overseeing management, and ensuring that stakeholder interests are balanced while achieving corporate financial objectives. This setup clearly delineates between governance and management functions.

Board compositions include representatives elected by shareholders as well as stakeholders such as union leadership, who contribute to and are directly affected by company decisions. Legislation is seen as necessary to ensure stakeholder representation in board decisions rather than relying solely on voluntary corporate initiatives, due to the complexity of balancing competing interests (Post & Byron, 2015).

Therefore, addressing these issues effectively requires a representative approach, whether mandated by law, facilitated by self-regulation, or a combination of both. Legal frameworks play a crucial role in regulating corporate activities beyond corporate law,

encompassing areas like bankruptcy and tax law, which influence internal governance and ownership transitions (Pletzer, 2015).

Corporate Governance and Performance Theory

- **Agency Theory**

Agency theory focuses on the relationship between the principals (shareholders) and agents (company executives). It posits that conflicts of interest may arise due to differing goals. Effective corporate governance mechanisms, such as a robust board of directors and performance-based executive compensation, can mitigate these conflicts, ensuring that management decisions align with shareholders' interests. In hydropower companies, this alignment is crucial for managing large-scale projects and significant financial investments efficiently.

- **Stakeholder Theory**

Stakeholder theory extends beyond shareholders to consider all parties affected by corporate actions, including employees, customers, suppliers, and the community. For hydropower companies, which often have substantial environmental and social impacts, strong corporate governance ensures that these stakeholders' interests are balanced. By integrating environmental sustainability and community welfare into their governance frameworks, hydropower companies can enhance their reputation, reduce operational risks, and improve long-term performance.

- **Resource Dependency Theory**

Resource dependency theory suggests that companies must manage their relationships with external entities that control critical resources. In the context of hydropower companies, these resources might include natural water resources, government permits, and technological expertise. Effective corporate governance facilitates strategic alliances, ensures compliance with regulations, and fosters innovation by securing necessary resources, ultimately enhancing company performance.

- **Stewardship Theory**

Stewardship theory posits that executives and managers, acting as stewards, are inherently motivated to act in the best interests of the company and its shareholders. This theory underscores the importance of trust and empowerment in corporate governance. For hydropower companies, fostering a stewardship culture can lead to better project management, innovation in sustainable practices, and more effective response to environmental challenges, thereby improving overall performance.

- **Institutional Theory**

Institutional theory examines how external pressures from legal, social, and cultural institutions shape corporate behavior. Hydropower companies are subject to stringent environmental regulations, international sustainability standards, and societal expectations for green energy. Strong corporate governance frameworks help these companies navigate institutional pressures, ensuring compliance and enhancing legitimacy, which can lead to improved access to capital and market opportunities.

- **Transaction Cost Economics**

Transaction cost economics focuses on the costs associated with economic transactions, such as negotiating, monitoring, and enforcing contracts. Effective corporate governance reduces these costs by establishing clear policies, transparent reporting mechanisms, and efficient decision-making processes. For hydropower companies, minimizing transaction costs is critical given the complexity and scale of their operations, leading to more efficient project execution and resource utilization.

2.2 Empirical Review

Couto and Rangel, (2023) investigated the Corporate governance aspects in sustainability and performance assessment models for energy companies. The present study aims to map the sustainability and performance evaluation models for energy companies regarding their qualitative and quantitative aspects of corporate governance. This research was carried out through a systematic literature review and the establishment of connections between the issues raised and general aspects of corporate governance, vis-à-vis the sustainable development matter. Aspects of corporate governance, such as gender diversity in the creation of boards of directors and directors in companies, is relevant in

view of the UN Sustainable Development Goals, as well as the ISO 26000 standard, regarding guidelines on corporate social responsibility. As an innovation in this mapping, a summary of the main qualitative and quantitative aspects of corporate governance is carried out using the clustering technique and co-occurrence map, mining and text analysis, compared to sustainability and performance evaluation models for energy companies. At the end, gaps in these models are pointed out referring to national and international organizations and studies regarding inter sectorial principles, practices and tools of corporate governance; opportunities for improvement are also pointed out.

Olukayode (2023) examined the institutional Governance of Electricity Sector in Nigeria Council on Privatization (NCP) as the top policy-making body on privatization-related matters. The Bureau for Public Enterprises (BPE) was created under the Act to serve as the government's technical operator and task manager for its public enterprise reform initiative. The reform legislation calls for licensing, liberalization, the unbundling of the public monopoly utility, corporatization, and the commercialization of successor enterprises. The Power Holding Company of Nigeria (PHCN) was established as a holding company. To ensure a competitive electricity market, the law suggests selling generating and distributing enterprises to core investors. Despite privatization attempts, Nigeria's electrical supply reliability remains a serious difficulty, and regulation remains an urgent issue. Due to the inconsistent availability of energy, manufacturers continue to rely primarily on diesel generators. Power plant failures have resulted in significant electrical shortages, with daily power outages lasting several hours. Conclusively, while the Nigerian power sector has undergone significant reforms, there is still a need for further improvements in regulation and electricity supply reliability to address the country's persistent energy challenges and support economic diversification beyond oil production and manufacturing sector collapse.

Khatiwada and Acharya (2022) conducted a case study to examine the relationship between corporate governance practices and the performance of hydropower companies in Nepal. Utilizing qualitative and quantitative methods, the study explores various aspects of corporate governance, including board structures, executive compensation, and regulatory compliance, and their impact on financial performance and operational

effectiveness within the hydropower sector. The findings underscore the significance of effective governance frameworks tailored to the unique challenges of the Nepalese hydropower industry, emphasizing the role of transparency, accountability, and strategic decision-making in enhancing overall company performance and sustainability.

Galina (2022) examined the corporate governance in generating companies of the Russian electric power industry in the context of esg agenda Energy Systems Institute of Siberian Branch of the Russian Academy of Sciences, 130 Lermontov St., Irkutsk 664033 To address the issues of investment appeal in the Russian electric power industry, this study analyzes the dynamics of corporate governance, including permanent redistribution of property and compliance with the Russian Corporate Governance Code, in wholesale and territorial-generating companies. The increasing concentration of property in the hands of the state and its implications for investors are also noted. This study reveals the violations of essential principles, and the substantial differences in corporate governance practices, in the best- and worst-performing companies. Additional standards for better corporate governance practices to benefit the investors in the context of the current Environmental, Social, and corporate Governance (ESG) agenda are proposed. This study provides a new insight at the development of corporate governance in Russian power generating companies through property redistribution and compliance with corporate governance principles.

KedzioretAl (2021) investigated the energy sector is expected to face fundamental challenges in the near future. On the one hand, it is experiencing a rapidly increasing demand for energy. At the same time, it is subject to the pressure of the climate policy due to environmental issues. For the same reason, the energy sector is forced to undertake costly investments to transform production from black to green energy. The issue of financing has become one of the key problems of the energy sector, especially in those countries in which energy production traditionally is based on fossil fuels, i.e., coal. The paper aims to investigate the impact of corporate governance on the capital structure of companies from the energy industry. We use three proxies of corporate governance quality: institutional investors, the board size, and state ownership and investigate their impact on capital structure. Our findings suggest that the latter two negatively impact

debt levels. In our model, we control for financial factors and CEO personal characteristics. They use a Polish setting since transformational problems of the energy sector in Poland are especially visible. At the same time, energy companies in Poland are subject to the strict Climate policy.

Omware, et al.(2020) investigated the corporate governance and financial performance of selected commercial bank listed at Nairobi Securities Exchange in Kenya. The purpose of this study is to examine the Corporate Governance factors and Monetary Presentation of profitable groups listed in Nairobi Securities Exchange in Kenya. The education used board characteristics (board size, unconventionality of the panel, and education of board, ethnic composition and the existence of both women and men in the board) the financial results and as independent variables by using different measures (Return on equity, Return on asset and Net interest edge) as reliant on variable. A cross sectional and different analysis method were used in the research. The study used a population consisted 11 profitable banks named in the Nairobi Securities Exchange in Kenya and the sample selected purposively which represent the entire population. In this study, 5 of the 11 Chief Executive Officers from the banks were interviewed. The researcher designed a questionnaires in order to collect primary data which distributed to Chief Executive Officers and Senior Management Officers of the sampled banks. The findings indicate that boarding scope, the independence of panel, and education of board, the existence of both women and men in the board, and ethnic composition positively influence the financial results of listed commercial banks to a large degree.

Ondigo, (2019) examined that the Relationship between Corporate Governance and Financial Performance of Commercial Banks in Kenya. The aim of the investigation was to examine the impact of corporate governance on the financial performance of commercial banks in Kenya. Regulators and researchers have employed various performance metrics, both quantitative and qualitative, to measure bank performance. To evaluate the financial performance of commercial banks, the study utilized the CAMEL rating system, which assesses capital adequacy, asset quality, management quality, earnings, and liquidity. As of December 31, 2014, the study included 43 commercial banks registered in Kenya. Descriptive statistics and diagnostic tests were performed on

the data, followed by inferential statistics to test the hypotheses, including correlation analysis and regression analysis. The study supported the agency theory, adopted a positivist research methodology, and employed a cross-sectional descriptive research design. The findings indicated a statistically significant relationship between corporate governance and the financial performance of banks. The study recommended that commercial bank regulators, boards, and management ensure continuity in their operations (supervision, execution, and monitoring) aligned with corporate priorities to enhance financial efficiency and create value for banks.

Yılmaz (2018) investigated that the Corporate Governance and Financial Performance Relationship: Case for Oman Companies. The aim of this research was to investigate the relationship between corporate governance and economic performance. The analysis was conducted using a sample of 61 companies listed on the Muscat Securities Market between 2013 and 2016. The study was divided into two groups. The first group developed a corporate governance ranking, which served as the dependent variable, while the second group analyzed the ranking mechanisms separately as dependent variable quantities. Two types of measurement systems were used as independent variables: market-based and accounting-related. Tobin's Q was employed to represent market performance, while return on assets, profit margin, EBIT margin, and net income margin were used as accounting-based indicators. The results indicated significant relationships between financial performance and corporate governance characteristics. However, in the context of Oman, the overall relationship was weak. While some individual corporate governance dimensions were not significantly impactful, most models produced overall significant results.

Mandal and Al-ahdal (2018) studied the Impact of Corporate Governance on Financial Performance of Indian Electronic Consumer Goods Firms. The aim of this study is to determine the impact of corporate governance on the financial performance of companies in the Indian electronic consumer goods industry. The analysis was based on a sample of seven Indian electronic consumer goods companies selected according to their market capitalization. Corporate governance structures, such as Board Size (BS), Audit Committee Meetings (ACM), and Audit Committee Independence (ACI), were used as

independent variables. Financial performance, measured by Return on Assets (ROA) and Return on Capital Employed (ROCE), served as the dependent variables. The analysis of the data revealed a significant association between corporate governance variables and company performance, as measured by ROA and ROCE. Additionally, the findings indicated that only an independent audit committee had a significant relationship with performance when using accounting measures (ROA and ROCE).

Wondem and Batra (2019) conducted the Impact of Corporate Governance Practices on Corporate Financial Performance in Ethiopia. The objective of this paper was to analyze the impact of corporate governance practices on shareholders' financial performance using a panel regression approach. Data was collected over a five-year period from 24 shareholders. The results of a rigorous FGLS panel regression estimation, using Return on Assets (ROA) and Return on Equity (ROE) as financial indicators, showed that gender diversity on the board of management and the size of shareholdings had a positive association with ROA. Additionally, the attendance rate of board executives' meetings had a positive but not significant association. The size of the board of management, the number of board meetings, and the leadership practices of the board had a negative impact on ROA. ROE had a strong and positive correlation with the frequency of board meetings ($p < 0.05$), the gender composition of the board of management ($p < 0.05$), and the size of shareholdings ($p < 0.01$). The study also provided empirical results showing that the attendance rate of board meetings had a significant and negative association with ROE ($p < 0.01$). However, no significant but negative correlation was found between ROE and the size of the board or the leadership practices of the board of directors. State ownership also had a positive relationship with both ROA and ROE.

Shrestha and Pant (2016) examined the relationship between corporate governance practices and firm performance specifically within the hydropower sector in Nepal. Through empirical analysis of data from Nepalese hydropower companies, the study investigates the extent to which governance mechanisms such as board composition, executive compensation, and regulatory compliance impact financial performance and operational efficiency. Findings suggest that robust corporate governance practices significantly contribute to enhancing the overall performance and sustainability of

hydropower companies in Nepal, highlighting the importance of tailored governance frameworks in the context of emerging market environments.

Silwal (2015) investigated the effects of Corporate Governance on the Performance of Nepalese Firms. The paper examines the effect of corporate governance on the performance of Nepalese firms. Return on assets, return on equity and Tobin's Q are the dependent variables for firm performance and firm size, leverage, board size, age of the firm, and audit committee are the explanatory variables. Data are collected from annual reports of 18 non-financial firms listed in NEPSE from 2010 to 2015. Multiple regression models were estimated to test the effect of explanatory variables on firm performance. The results reveal that corporate governance has a significant impact on firms' performance based on return on assets. Board size and leverage have a negative and significant effect on firm performance, while age of the firm and audit committee have a positive effect on firm performance based on return on equity. While regressing firm performance based on Tobin's Q, board size and audit committee are the major factors in determining the firm performance.

Makki and Lodhi (2013) analyzed the Impact of Corporate Governance on Financial Performance. The focus of this research was to determine the systematic relationship between corporate governance and financial performance. The thesis developed a model that links corporate governance with financial outcomes and validated it using a partial least squares (PLS) structural equation modeling approach. The sample was randomly selected from all companies listed on the Karachi Stock Exchange, and the data was sourced from their annual reports. Analysis using PLS Graph software revealed a structural correlation between corporate governance and financial performance. The findings indicated that corporate governance does not consistently improve financial efficiency. Instead, the study suggests that financial performance can be significantly enhanced by corporate leaders through the utilization of intangible assets. The findings indicated that corporate governance does not consistently improve financial efficiency. Instead, the study suggests that financial performance can be significantly enhanced by corporate leaders through the utilization of intangible assets.

Table 1

Literature Review

Authors	Variables	Methodology	Majour Findings
Couto and Rangel (2023)	Independent Variables: Corporate governance aspects related to sustainability, gender diversity, Dependent Variables: Performance ROE	Systematic literature review, clustering technique, co-occurrence map	Gender diversity in boards is crucial for aligning with SDGs and ISO 26000. Identifies gaps in sustainability and performance models in energy companies and suggests improvements in corporate governance practices to support sustainable development.
Olukayode (2023)	Independent Variables: Corporate governance in Nigeria's electricity sector, privatization, licensing, corporatization Dependent Variables: Performance analysis	Case study, analysis of legislation and reform impacts	Despite reforms and privatization, Nigeria's electricity sector faces challenges in reliability and regulation. Improved governance and regulatory frameworks are needed to enhance electricity supply and support economic diversification.

Khatiwada and Acharya (2022)	Board structures, executive compensation, regulatory compliance, financial performance, operational effectiveness	Qualitative and quantitative analysis, case study	Effective governance frameworks enhance the performance and sustainability of Nepalese hydropower companies. Emphasizes transparency, accountability, and strategic decision-making.
Sheveleva (2022)	Independent Variables: Corporate governance, property redistribution, compliance with the Russian Corporate Governance Code, Dependent Variables: ESG agenda	Analysis of governance dynamics in Russian energy companies	Identifies issues with state property concentration and proposes additional standards to improve governance practices in Russian power companies. Highlights differences between best and worst performers
Kedzior et al. (2021)	Independent Variables: Corporate governance, institutional investors, board size, state ownership, Dependent Variables: capital structure	Analysis of governance factors on capital structure, focusing on Polish energy companies	State ownership and board size negatively impact debt levels in energy companies. Highlights the need for improved governance to address financing challenges amid climate policy

			pressures.
Omwere et al. (2020)	Independent Variables: Board size, independence, education, ethnic composition, gender diversity, Dependent Variables: financial performance (ROE, ROA, Net interest margin)	Cross-sectional analysis, questionnaires, interviews	Board characteristics and diversity positively influence the financial performance of listed banks in Kenya. Emphasizes the importance of diverse and independent boards for improved financial outcomes.
Ondigo (2019)	Independent Variables: Corporate governance, Dependent Variables: financial performance, CAMEL rating system	Descriptive and inferential statistics, cross-sectional design	Statistically significant relationship between corporate governance and bank performance in Kenya. Recommends continuous improvements in governance to enhance financial efficiency.
Yilmaz (2018)	Independent Variables: Corporate governance, Dependent Variables: financial performance (Tobin's Q, ROA, profit margin), market-based and accounting-related measures	Analysis of Omani companies using corporate governance ranking	Significant but weak relationship between corporate governance and financial performance in Oman. Some governance dimensions showed significant impact.

Mandal and Al-ahdal (2018)	Independent Variables: Corporate governance structures (Board Size, Audit Committee Meetings, Audit Committee Independence), Dependent Variables: financial performance (ROA, ROCE)	Analysis of Indian electronic consumer goods companies	Significant association between corporate governance and performance. Independent audit committee is particularly influential on performance.
Wondem and Batra (2019)	Independent Variables: Board diversity, size of shareholdings, board meetings, leadership practices, Dependent Variables: ROA, ROE	Panel regression analysis using FGLS	Gender diversity and size of shareholdings positively impact ROA. Frequent board meetings positively correlate with ROE. Leadership practices and board size negatively impact ROA
Shrestha and Pant (2016)	Independent Variables: Board composition, executive compensation, regulatory compliance, Dependent Variables: financial performance, operational efficiency	Empirical analysis of Nepalese hydropower companies	Robust corporate governance practices enhance the performance and sustainability of hydropower companies in Nepal. Emphasizes tailored governance frameworks for emerging markets.
Silwal (2015)	Dependent variable: Return on assets, return on equity, Tobin's Q,	Multiple regression	Corporate governance significantly impacts

	Independent Variables: Board size, leverage, firm age, audit committee	analysis	firm performance in Nepalese firms. Board size and leverage negatively affect performance, while firm age and audit committee positively affect performance.
Makki and Lodhi (2013)	Dependent variable: Corporate governance, financial performance, Independent Variables: structural equation modelling	PLS structural equation modelling	Corporate governance can enhance financial performance through intangible assets, though not consistently. Proposes a model linking governance to financial outcomes.

2.3 Research Gap

While corporate governance has been extensively studied in various industries, there is a notable lack of focused research on its impact within the hydropower sector in Nepal. Previous studies tend to generalize findings across multiple industries or focus heavily on financial institutions, thereby neglecting the unique operational and regulatory challenges faced by hydropower companies. This gap is significant given that the hydropower sector is crucial to Nepal's economy and energy security. The distinct governance structures and market conditions in this sector require a tailored approach to understand how corporate governance practices can effectively enhance performance. Despite the importance of this sector, empirical research specifically targeting corporate governance practices in Nepalese hydropower companies, especially those listed on the Nepal Stock Exchange (NEPSE), remains sparse Claessens and Yurtoglu (2013).

Moreover, while some literature suggests that good corporate governance can lead to better firm performance, there is limited evidence that directly links specific governance practices to performance outcomes in the context of Nepal's hydropower companies. Existing studies often overlook critical governance indicators relevant to this sector, such as environmental stewardship, stakeholder engagement, and regulatory compliance. There is a pressing need for research that not only measures these corporate governance practices but also examines their effects on performance. Identifying the major indicators of corporate governance that drive success in NEPSE-listed hydropower companies is essential for developing sector-specific governance frameworks that can lead to improved performance outcomes. Aboagye and Otieku, (2010).

CHAPTER III

RESEARCH METHODOLOGY

The research methodology, which is used to analyze collected data, is mentioned in this chapter.

3.1 Research design

The main objective of this study is to examine the impact on corporate governance and by Board size, executive compensation, age of Sample Company, leverage (debt ratio) and audit committee and other financial indicators. This study follows descriptive and casual research design. Some statistical tools have been applied to examine facts and descriptive techniques have been used to determine impact of corporate governance and performance of Hydropower Company limited in based on ten-year data from fiscal year 2013/14 to 2022/23.

3.2 Population sample and sampling design

All the hydropower company are listed with the Nepal stock exchange are the population, but for the study only three listed hydropower companies in the NEPSE are taken as the population of the study. There are 87 hydropower company listed till fiscal year 080/081 in NEPSE but only 3 of them are taken on basis of their establishment date. The table below clearly describes population and sample.

Table 2

Population and Sample

S.N.	Name of Hydro power Company	Symbol	Year of establishment
1	Butwal Power Company Limited	BPCL	February 19, 1966.
2	Chilime Hydropower Company Limited	CHCL	August 25, 1995.
3	Sanima Mai Hydropower Limited	SHPC	March 31, 1998.

3.3 Nature and sources of data

Secondary data have been collected in order to achieve the real and factual result out of this research. All possible and useful data available have been collected. Secondary data are collected from secondary sources. The secondary sources of data are the information received from books, journals and articles concerned with the study, hydropower annual reports and their websites.

3.4 Data collection techniques

The research is based on secondary data. Secondary data is the data that have been already collected by and readily available from other sources. These secondary data are collected mainly from sources like annual reports, newspaper, journal internet and other sources. Secondary data are collected from various publications of concerning organizations from Hydropower Companies and even from websites of various power companies.

3.5 Data processing

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be simplified for analysis. The relevant data have been inserted in meaningful tables. Methods of processing must be rigorously documented to ensure the utility and integrity of the data. Only the data that are relevant to the study have been presented in tabular form in the understandable way and unnecessary data excluded. It is attempted to draw out the conclusion from the available data with the help of various statistical tools. For the calculation of statistical value like mean, standard deviation, coefficient of variance, correlation, regression, computer software like excel and SPSS had been used.

3.6 Data analysis tools

The secondary data collected from various sources leads to the logical conclusion, only if the appropriate tools and techniques are adapted for analysis of such data. Various statistical tools have been used to analyze the data in this study. The statistical tools applied are average/arithmetic mean, standard deviation, coefficient of variation, correlation coefficient and regression analyses.

Return on Equity (ROE): Is a financial ratio that measures a company's ability to generate profit from its shareholders' equity. It indicates how efficiently a company is using the funds provided by its shareholders to generate earnings.

$$\text{Return on Equity (ROE)} = \frac{\text{NetprofitafterTax}}{\text{TotalShareholderEquity}}$$

Net Income: The profit of the company after all expenses, taxes, and costs have been subtracted from total revenue.

Shareholders' Equity: The residual interest in the assets of the company after deducting liabilities. This can be found on the company's balance sheet and is also referred to as the book value of equity.

ROE is expressed as a percentage, and a higher ROE indicates more efficient use of equity to generate profits.

Return on Assets (ROA):

$$\text{Return on Assets (ROA)} = \frac{\text{NetProfitafter Tax}}{\text{TotalAssets}}$$

Net Income: The profit of the company after all expenses, taxes, and costs have been subtracted from total revenue.

Total Assets: Total assets refer to the combined value of everything a company owns, including cash, investments, real estate, equipment, and inventory, which are used to conduct its operations and generate revenue

3.7 Descriptive statistics

Some statistical tools have also been used in the study. Following descriptive statistics tools are used to analyze the relationship between two variables.

Arithmetic mean

Mean is the value that represents the group of values and provides an indication of the concentration of values in the distribution's central part. An average provides us with a point that is most representative of the information. It portrays the aspects of the entire

representative of the data. The value of arithmetic mean lies in between the two extreme observations of the entire data. It is an envoy of the mass homogeneous data. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

The arithmetic mean is simple, and most people with even a little bit of finance and math skill can calculate it. It's also a useful measure of central tendency, as it tends to provide useful results, even with large groupings of numbers.

Mathematically, Arithmetic Mean (AM) is given by,

$$\text{Mean } (\bar{X}) = \frac{\sum x}{N}$$

Where,

$$\bar{X} = \text{Mean}$$

$$\sum x = \text{Sum of variables}$$

$$N = \text{Number of values}$$

Standard deviation (σ)

A stock's standard deviation is a valuable instrument for investors to use when searching for their optimal stock. Some investors prefer a risk free strategy, while others like to take a more risky approach. The standard deviation helps to point them in the right direction.

The standard Deviation measures the absolute dispersion. The greater the standard Deviation, greater will be magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically,

$$\text{S. D } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Coefficient of variation

Coefficient of Variation (CV) is a relative measure of risk. It is the standard deviation divided by the expected return, which measures risk per unit of return. To compare the variability between two or more series, CV is more appropriate statistical tool. Mathematically,

$$C.V. = \frac{s}{\bar{x}} \times 100$$

3.8 Correlation analysis

Correlation coefficient (r)

When the relationship is quantitative nature, Correlation coefficient is the best mathematical method for discovering and measuring the relationship and expressing it. If the value of the variables is directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1. By Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by, Where, $r(x, y)$ is the correlation between two variables X and Y.

$$r = \frac{\Sigma(X-\bar{X})(Y-\bar{Y})}{\sqrt{\Sigma(X-\bar{X})^2} \sqrt{\Sigma(Y-\bar{Y})^2}}$$

When, $r = +1$, there is perfect positive correlation.

$r = -1$, there is perfect negative correlation.

$r = 0$, there is no correlation.

r lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

r lies between 0.5 and 0.699, there is a moderate degree of correlation.

r is less than 0.5, there is low degree of correlation.

3.9 Regression analysis

Regression analysis is the statistical tool that can predict the unknown value of one variable from the known value of any other variable. The variable, whose value is given, is called independent variable and the variable whose value is to be predicted is called dependent variable. It is used to determine whether the dependent variable is influenced by the given independent variable or not. In this study, market price per share is a dependent variable whereas earnings per share, dividend per share, price earnings- ratio and book value per share are independent variables.

The Regression Model

Model for this study has been made as follows:

$$ROA = \beta_0 + \beta_1BS + \beta_2Age + \beta_3lev + \beta_4AC + \beta_5EC$$

$$ROE = \beta_0 + \beta_1BS + \beta_2Age + \beta_3lev + \beta_4AC + \beta_5EC$$

Where,

ROE = Return on Equity

ROA = Return on Equity

β_0 = Intercept

β_1 = Coefficient of Board Size

BS = Board Size

β_2 = Coefficient of Age of The Sample company

Age = Age of the sample company

β_3 = Coefficient of Leverage (Debt Ratio)

Lev = Leverage (Debt Ratio)

β_4 = Coefficient of Audit Committee

AC = Audit Committee

β_5 = Coefficient Executive Compensation

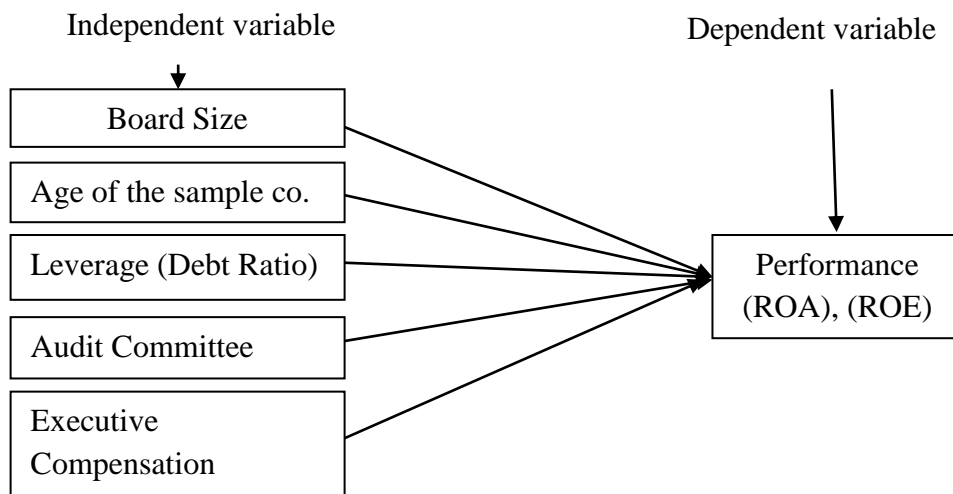
EC = Executive Compensation

3.10 Research Framework and Definition of Variable

Conceptual framework is a scheme of concept (variables) which the researchers operationalize in order to achieve the set objective. A research framework depicts a

relation that exists between study variables. Conceptual framework is developed based on literature review of existing studies on the topic. Research framework can be viewed as a map for understanding the relationships between or among the variables in quantitative as well as qualitative studies (Mugenda, 2003). The Research framework developed to test the effect of these independent variables on the Return on Equity of Hydropower Companies that were listed in NEPSE. To indicate a causal relationship, each arrow should start from the independent variable (the cause) and point to the dependent variable (the effect).

Figure 1 *Research Framework and Definition of Variable*



Source: Silwal (2015)

Definition of Variables

Board Size: Board size, within the context of corporate governance, refers to the number of directors on a company’s board. The size of the board can significantly influence governance practices and organizational performance. Smaller boards are typically associated with more agile decision-making processes, though they may lack the diversity of viewpoints. Conversely, larger boards can provide a wider range of expertise but may struggle with reaching consensus and effective communication. Determining the ideal board size is critical as it impacts governance effectiveness, strategic oversight, and the company’s ability to navigate complex business environments while ensuring adequate stakeholder representation (Zahra & Pearce, 1989; Dalton et al., 1999).

Age of the Sample Company: The age of a hydropower company, in terms of corporate governance, often signifies its maturity and experience in the industry. Older companies typically possess well-established governance structures, seasoned management teams, and a track record of operational performance. These factors contribute to more stable and predictable outcomes. For instance, Chilime Hydropower, established in 1995, has developed robust governance frameworks and consistently strong performance metrics, enhancing its credibility in the sector (Baker & Gompers, 2003; De Angelo and DeAngelo, 1985).

Leverage (Long Term Debt Ratio): Leverage, or the debt ratio, measures a company's use of debt relative to its equity in financing operations and investments. While leverage can magnify returns during favorable economic conditions, it also heightens financial risk, particularly in downturns, by increasing the company's obligations for interest payments and debt repayment. Effective corporate governance involves managing leverage to balance financial flexibility with the need to mitigate default risks, supporting sustainable growth (Jensen & Meckling, 1976; Modigliani & Miller, 1958).

Audit Committee: An Audit Committee is a vital component of corporate governance, responsible for overseeing a company's financial reporting, internal controls, and audit processes. Comprised of independent directors with financial expertise, the committee ensures the accuracy and transparency of financial statements, maintains the independence of external auditors, and monitors internal control systems. The effectiveness of an Audit Committee is essential for promoting accountability, integrity, and trust in financial practices, thereby safeguarding shareholder interests and supporting long-term performance (Klein, 2002; Carcello & Neal, 2000).

Return on Equity (ROE): Return on Equity (ROE) is a key measure of a company's profitability, reflecting the efficiency with which a company generates profit from its shareholders' equity. ROE is calculated as the net income divided by the average shareholders' equity for a fiscal year, expressed as a percentage (Fama & French, 1992).

Return on Assets (ROA): Return on Assets (ROA) gauges a company's ability to generate revenue from its assets. It is calculated as net income divided by total average

assets. This metric is particularly important in capital-intensive industries like hydropower, where the efficient use of assets is crucial for financial performance (Hirshleifer et al., 2003).

Executive Compensation: Executive compensation refers to the total remuneration and benefits provided to a company's senior executives, typically including salaries, bonuses, stock options, and other financial rewards. This compensation is designed to align the interests of executives with those of shareholders, incentivizing leaders to enhance company performance and shareholder value. However, the structure and size of executive compensation packages are often scrutinized due to concerns about fairness, pay-for-performance alignment, and the potential for executives to prioritize short-term gains over long-term sustainability (Jensen & Murphy, 1990; Bebchuk & Fried, 2004). Effective corporate governance plays a crucial role in designing and overseeing executive compensation to ensure it promotes ethical leadership, accountability, and long-term organizational success.

CHAPTER IV

RESULTS AND DISCUSSION

The study tries to analyze specific variables of selected hydropower company. It is true that there are different variables to measure performance of hydro company, but this study only analyzes return on assets, return on equity, board size, age of Sample Company, compensation debt ratio, executive committee to examine the corporate governance and performance of selected hydropower companies. The analysis of major variables was discussed.

4.1 Result

A data presentation typically involves a detailed analysis of a company's financial and governance metrics to assess its performance and risk factors. Key elements of this analysis include Return on Assets (ROA) and Return on Equity (ROE), which measure a company's efficiency in using its assets and equity to generate profits. The debt ratio assesses the proportion of a company's assets that are financed through debt, indicating financial stability and risk. Board size and the age of the sample company provide insights into governance structures and the company's experience. Compensation levels of executives and the presence of an executive committee reflect the alignment of management incentives with company performance. By integrating these metrics, a DATA presentation offers a comprehensive view of a company's operational efficiency, financial health, and governance practices. The financial tools are used to examine the strength and weakness of the bank in terms of financial health or financial performance. The following are the financial tools we used to analyze data:

Return on Assets

Return on Assets (ROA) measures how effectively a company uses its assets to generate profit. A higher ROA indicates efficient management and better asset utilization, while a lower ROA suggests less effective use of assets in generating profits.

The Table 3 presents the Return on Assets (ROA) in percentage for three hydropower companies over a ten-year period, from 2013/14 to 2022/23. Butwal Power shows an average ROA of 6.96%, with a standard deviation of 2.11% and a coefficient of variation (CV) of 30.03%. This indicates moderate variability in its returns relative to its mean.

Table 3
Return on Assets in percentage

Year	Butwal Power	Chilime HydroPower	Sanimamai Hydropower
2013/14	4.86	2.91	3.57
2014/15	7.64	7.19	5.02
2015/16	8.74	3.35	3.29
2016/17	2.98	4.31	8.79
2017/18	9.57	4.4	5.05
2018/19	9.24	3.18	0.53
2019/20	9.29	6.22	2.95
2020/21	6.53	9.78	2.52
2021/22	3.56	5.68	3.74
2022/23	4	6.68	5.08
Mean	6.96	5.03	4.48
S.D	2.11	1.87	2.16
C.V	30.03	37.2	48.2

Source: *Appendix*

Chilime Hydropower has an average ROA of 5.03%, a standard deviation of 1.87%, and a CV of 37.2%, reflecting slightly higher variability compared to Butwal Power. Sanima Mai Hydropower has the lowest average ROA at 4.48%, with the highest standard deviation of 2.16% and a CV of 48.2%, showing the greatest relative variability in its returns. These metrics offer insights into each company's performance stability and risk, with Sanima Mai exhibiting the most fluctuation in ROA among the three.

Return on Equity

Return on Equity (ROE) measures a company's profitability by indicating how effectively it uses shareholders' equity to generate net income. It is calculated by dividing net income by shareholders' equity and is expressed as a percentage. A higher ROE signifies better financial performance and efficient use of equity.

The Table 4 shows that provides the Return on Equity (ROE) percentages for Butwal Power Company, Chilime Hydropower, and Sanima Mai Hydropower from 2013/14 to 2022/23. Butwal Power's ROE ranged from 16.3% in 2013/14 to 3.93% in 2021/22, with a mean of 9.48% and a standard deviation of 4.45%, showing moderate variability. The coefficient of variation (C.V.) for Butwal Power is 46.92%, indicating high relative dispersion. Chilime Hydropower's ROE varied between 6.77% in 2016/17 and 10.91% in 2014/15, with a mean of 8.45%, a standard deviation of 1.95%, and a C.V. of 23.29%, suggesting greater stability. Sanima Mai's ROE ranged from -2.56% in 2015/16 to 20.42% in 2016/17, with a mean of 8.18%, a standard deviation of 7.56%, and a C.V. of 92.4%, reflecting the highest variability. Overall, Butwal Power and Chilime Hydropower show relatively stable performance, while Sanima Mai experiences significant volatility.

Table 4

Return on Equity in percentage

Year	Butwal Power	Chilime HydroPower	Sanimamai Hydropower
2013/14	16.3	8.72	3.71
2014/15	5.78	10.91	12.35
2015/16	7.60	7.77	-2.56
2016/17	12.52	6.77	20.42
2017/18	15.73	8.95	13.29
2018/19	11.04	10.76	10.52
2019/20	10.40	8.15	9.97
2020/21	7.16	9.79	14.37
2021/22	3.93	4.21	13.95
2022/23	4.33	8.47	7.21
Mean	9.48	8.45	8.18
S.D	4.45	1.95	7.56
C.V	46.92	23.29	92.4

Source: *Appendix*

Board size

Board size in corporate governance refers to the total number of directors on a company's board, which plays a critical role in decision-making and oversight. An optimal board size balances diverse perspectives and expertise while maintaining effective communication and decision-making efficiency. The size can influence the board's ability to govern effectively, impacting corporate performance and accountability. The table 5 shows that the table provides an analysis of the annual performance of three hydropower companies; Butwal Power, Chilime Hydropower, and Sanima Mai Hydropower across a decade, from 2013/14 to 2022/23.

Table 5

Board size in number

Year	Butwal Power	ChilimeHydroPower	Sanimamai Hydropower
2013/14	7	7	7
2014/15	9	7	7
2015/16	8	7	7
2016/17	9	7	7
2017/18	7	7	9
2018/19	7	7	7
2019/20	9	7	7
2020/21	9	7	7
2021/22	9	11	7
2022/23	11	9	7
Mean	8.5	7.6	7.2
S.D	1.27	1.35	0.63
C.V	14.93	17.70	8.78

Source: *Appendix*

Butwal Power shows the highest mean performance at 8.5, with a standard deviation (S.D.) of 1.27, leading to a coefficient of variation (C.V.) of 14.93%, indicating relatively stable performance with moderate variability. Chilime Hydropower has a mean of 7.6, with a slightly higher S.D. of 1.35 and a C.V. of 17.70%, suggesting more variability in its performance compared to Butwal Power. Sanima Mai Hydropower, with the lowest mean of 7.2, also has the lowest S.D. of 0.63 and the smallest C.V. of 8.78%, indicating the most consistent performance among the three companies. These statistics reflect each company's operational stability and performance consistency over the period, with Sanima Mai Hydropower demonstrating the least variability. Also, the table analyzes the performance of Butwal Power, Chilime Hydropower, and Sanima Mai Hydropower over ten years. Butwal Power has the highest mean performance with moderate variability, while Chilime Hydropower shows slightly more variability. Sanima Mai Hydropower has the lowest mean but the most consistent performance, as indicated by its low coefficient of variation. Overall, the data reflects each company's stability and consistency, with Sanima Mai Hydropower being the most stable.

Age of the Sample Company

The age of a hydropower company, in terms of corporate governance, often signifies its maturity and experience in the industry. Older companies typically possess well-established governance structures, seasoned management teams, and a track record of operational performance. These factors contribute to more stable and predictable outcomes. For instance, Chilime Hydropower, established in 1995, has developed robust governance frameworks and consistently strong performance metrics, enhancing its credibility in the sector.

The Table 6 presents the annual values for Butwal Power, Chilime Hydropower, and Sanima Mai Hydropower from 2013/14 to 2022/23, showing a consistent upward trend for all three companies. Butwal Power's values increased steadily from 48 to 57, with a mean of 52.5, a standard deviation (S.D.) of 3.03, and a coefficient of variation (C.V.) of 5.77%, indicating low variability.

Table 6
Age of the Sample Company

Year	Butwal Power	ChilimeHydroPower	Sanimamai Hydropower
2013/14	48	18	14
2014/15	49	19	15
2015/16	50	20	16
2016/17	51	21	17
2017/18	52	22	18
2018/19	53	23	19
2019/20	54	24	20
2020/21	55	25	21
2021/22	56	26	22
2022/23	57	27	23
Mean	52.5	22.5	18.5
S.D	3.03	3.03	3.03
C.V	5.77	13.47	16.38

Source: *Appendix*

Chilime Hydropower also showed steady growth from 18 to 27, with a mean of 22.5, an S.D. of 3.03, and a C.V. of 13.47%, reflecting moderate variability. Sanima Mai Hydropower followed a similar trend, rising from 14 to 23, with a mean of 18.5, an S.D. of 3.03, and a C.V. of 16.38%, indicating higher variability compared to the other two companies. Overall, the data suggest consistent growth with varying degrees of stability across the three hydropower companies.

Leverage (Long Term Debt Ratio)

Leverage, measured by the debt ratio, is a financial metric that indicates the proportion of a company's assets financed by debt. It is calculated by dividing total liabilities by total assets, showing how much of the company's operations are funded through borrowing. A higher debt ratio suggests greater financial leverage and potentially higher financial risk.

Table 7

Leverage (Debt Ratio in percentage)

Year	Butwal Power	ChilimeHydroPower	Sanimamai Hydropower
2013/14	7.94	2.36	7.78
2014/15	9.29	3.38	7.80
2015/16	8.82	3.13	5.39
2016/17	10.64	2.50	72.30
2017/18	13.18	5.06	52.64
2018/19	13.19	2.56	48.45
2019/20	15.29	5.02	44.13
2020/21	18.19	2.98	29.96
2021/22	23.72	4.00	36.55
2022/23	26.66	4.36	24.89
Mean	14.69	3.54	32.99
S.D	6.31	1.08	9.41
C.V	42.96	30.51	28.53

Source: *Appendix*

The Table 7 presents the leverage (debt ratio) of Butwal Power, Chilime Hydropower, and Sanima Mai Hydropower over a decade, from 2013/14 to 2022/23. Butwal Power's debt ratio gradually increased from 7.94% in 2013/14 to 26.66% in 2022/23, with an average ratio of 14.69% and a standard deviation (S.D.) of 6.31, reflecting moderate variability. Chilime Hydropower maintained a relatively low and stable debt ratio, ranging from 2.36% to 5.06%, with a mean of 3.54% and a low S.D. of 1.08. In contrast, Sanima Mai Hydropower exhibited significant fluctuations, with a debt ratio peaking at 72.30% in 2016/17 and an overall mean of 32.99%, indicating higher financial leverage. The coefficient of variation (C.V.) values, 42.96% for Butwal Power, 30.51% for Chilime Hydropower, and 28.53% for Sanima Mai Hydropower, highlight the relative dispersion in their debt ratios.

Audit Committee

Table 8

Audit Committee

Year	Butwal Power	ChilimeHydroPower	Sanimamai Hydropower
2013/14	3	3	3
2014/15	5	4	4
2015/16	3	3	3
2016/17	4	4	4
2017/18	4	4	3
2018/19	3	5	3
2019/20	3	5	3
2020/21	3	5	3
2021/22	4	3	3
2022/23	4	4	4
Total	36	40	33
Percentage	30%	33.33%	26.67%
Mean	3.6	4	3.2
S.D	0.8	0.8	0.6
C.V	22.22%	20%	18.75%

Source: *Appendix*

An audit committee is one of the major operating committees of a company's board of directors that is in charge of overseeing financial reporting and disclosure.

The Table 8 shows that the table presents a comparative analysis of three hydropower companies Butwal Power, Chilime HydroPower, and Sanima Mai Hydropower over the fiscal years 2013/14 to 2022/23. Over this period, Chilime HydroPower recorded the highest total value of 40, representing 33.33% of the combined total, with a mean of 4.0, a standard deviation (S.D) of 0.8, and a coefficient of variation (C.V) of 20%. Butwal Power followed with a total of 36 (30% of the total), a mean of 3.6, S.D of 0.8, and a C.V of 22.22%. Sanima Mai Hydropower had the lowest total of 32 (26.67%), with a mean of 3.2, S.D of 0.6, and a C.V of 18.75%. The analysis shows that while Chilime

HydroPower has the highest consistency, Sanima Mai Hydropower exhibits the least variability in its performance, as indicated by the lowest C.V value.

Executive Compensation

Executive compensation refers to the total remuneration and benefits provided to a company's senior executives, typically including salaries, bonuses, stock options, and other financial rewards.

Table 9

Executive compensation

Year	Butwal Power	Chilime HydroPower	Sanimamai Hydropower
2013/14	30,376,800	242,018,000	10,000,000
2014/15	47,982,900	172,846,500	10,000,000
2015/16	61,942,900	124,100,000	10,000,000
2016/17	66,802,200	186,072,000	12,404,000
2017/18	70,226,300	242,096,000	21,100,000
2018/19	76,033,500	184,346,000	23,210,000
2019/20	73,128,400	71,051,000	25,531,000
2020/21	50,181,600	55,919,250	87,567,800
2021/22	27,415,000	50,112,000	51,442,800
2022/23	30,507,100	75,425,000	86,691,900
Mean	53,459,670	140,398,575	33,794,750
S.D	18,874,585.69	74,776,627.86	30,729,502.28
C.V	35.31%	53.26%	90.93%

Source: *Appendix*

The Table 9 shows that the financial compensation value for Butwal Power, Chilime Hydropower, and Sanima Mai Hydropower over a ten-year period from 2013/14 to 2022/23. Butwal Power's financial performance shows a gradual increase in values up until 2018/19, followed by a decline, with an overall mean of NPR 53,459,670 and a relatively low coefficient of variation (C.V.) of 35.31%, indicating moderate stability. Chilime Hydropower, with a higher mean of NPR 140,398,575, experienced greater

volatility, as reflected in a higher standard deviation (S.D.) of NPR 74,776,627.86 and a C.V. of 53.26%. Sanima Mai Hydropower's figures, though lower in absolute terms with a mean of NPR 33,794,750, exhibit the highest variability, with a C.V. of 90.93%, indicating significant fluctuations, especially in later years. This analysis highlights the differing levels of financial consistency and risk among the three companies.

4.2. Descriptive statistics of all variables

The below Table 10 shows the descriptive statistics for dependent and independent variables of selected three Nepalese corporate governance and hydropower company for the study period of 2013/14 to 2022/23. The dependent variable is return on assets and return on equity the independent variables are board size, age of Sample Company, leverage (long term ratio), audit committee, Executive compensation.

The Table 10 shows that the descriptive statistics summarizes the key performance and governance indicators of Hydropower Company Limited, focusing on measures such as Return on Assets (ROA), Return on Equity (ROE), Board Size (BS), Audit Committee Size (AC), age of Sample Company (ASC), Long-term Debt Ratio (LTDR), and Executive Compensation (EXC). The ROA has a mean of 5.355 with a minimum of 0.53 and a maximum of 9.78, indicating moderate profitability relative to the company's assets.

Table 10

Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	0.53	9.78	5.355	2.48
ROE	30	-2.56	20.42	9.4173	4.52745
BS	30	7	11	7.7667	1.22287
ASC	30	14	57	31.1667	15.70654
LTDR	30	2.36	72.3	17.072	17.82418
AC	30	3	5	3.6333	0.7184
EXC	30	10000000	242096000	75884331.7	66018212.38

Sources :Spss Analysis

ROE, which measures profitability relative to shareholders' equity, has a mean of 9.4173 but ranges widely from -2.56 to 20.42, reflecting significant variability in returns

. Board Size averages 7.77 members, suggesting relatively compact governance structures. The age of sample company (ASC) shows a mean of 31.17, indicating substantial variability with values ranging from 14 to 57. The Long-term Debt Ratio (LTDR) averages 17.072, ranging from 2.36 to 72.3, reflecting diverse debt management strategies. The Audit Committee Size (AC) averages 3.63 members, indicating a relatively standard audit committee size across companies. Executive Compensation (EXC) shows a high mean of approximately 75.88 million, with considerable variation, highlighting significant differences in how executive rewards are structured. Overall, the table provides a snapshot of the company's performance and governance characteristics, illustrating variability in financial metrics and corporate governance practices.

4.3 Correlation Analysis

The correlation analysis examines the relationships between various corporate governance and performance indicators of Hydropower Company Limited. A strong positive correlation between ROA and ROE suggests that companies with higher asset returns also tend to deliver better returns to shareholders. Board Size (BS) may have a weak correlation with ROA and ROE, indicating that changes in the number of board members do not significantly impact financial performance. The Long-term Debt Ratio (LTDR) shows a negative correlation with both ROA and ROE, implying that higher debt levels are associated with lower profitability. A positive correlation between Executive Compensation (EXC) and performance metrics suggests that better-performing companies tend to reward their executives more. However, the correlation between Audit Committee Size (AC) and performance metrics is likely weak, indicating limited direct influence on profitability. Asset Size (ASC) shows mixed correlations with performance, suggesting that larger asset bases do not consistently drive higher returns. These insights help identify which governance factors most influence financial outcomes in hydropower companies.

Table 11

Correlation analysis

	ROA	ROE	BS	ASC	LTDR	AC	EXC
ROA	Pearson Correlation Sig. (2-tailed)	1					
ROE	Pearson Correlation Sig. (2-tailed)	0.228	1				
BS	Pearson Correlation Sig. (2-tailed)	0.225	0.088	-0.322	1		
ASC	Pearson Correlation Sig. (2-tailed)	0.644	0.082	0.391*	-0.026	.512**	1
LTDR	Pearson Correlation Sig. (2-tailed)	0.032	0.889	0.004			
AC	Pearson Correlation Sig. (2-tailed)	-0.116	.454*	0.011	-0.12	1	
EXC	Pearson Correlation Sig. (2-tailed)	0.542	0.012	0.953	0.526		
	Pearson Correlation Sig. (2-tailed)	0.26	0.017	-0.022	0.03	-0.243	1
	Pearson Correlation Sig. (2-tailed)	0.165	0.928	0.907	0.875	0.196	
	Pearson Correlation Sig. (2-tailed)	-0.098	0.007	-0.272	-0.199	-.457*	0.187
	Pearson Correlation Sig. (2-tailed)	0.606	0.971	0.146	0.292	0.011	0.322

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

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

Source: spss analysis

Table 11 shows that the correlation analysis reveals relationships between the dependent variables, Return on Assets (ROA) and Return on Equity (ROE), and independent variables such as Board Size (BS), Age of Sample Company (ASC), Long-term Debt Ratio (LTDR), Audit Committee (AC), and Executive Compensation (EXC). The Age of Sample Company (ASC) shows a significant positive correlation with ROA ($r = 0.391$, p

= 0.032), suggesting that older companies tend to perform better in terms of asset returns. Additionally, ASC has a strong positive and significant correlation with BS ($r = 0.512$, $p = 0.004$), indicating that older companies often have larger boards. ROE is positively and significantly correlated with LTDR ($r = 0.454$, $p = 0.012$), suggesting that companies with higher long-term debt ratios tend to have higher equity returns, possibly due to leveraging effects. Conversely, Executive Compensation (EXC) shows a significant negative correlation with LTDR ($r = -0.457$, $p = 0.011$), indicating that companies with higher debt levels tend to offer lower executive pay. However, most variables like Board Size, Audit Committee, and Executive Compensation have weak or insignificant relationships with ROA and ROE, highlighting that not all governance factors directly impact financial performance. In the given correlation analysis, some variables, such as Board Size (BS), Audit Committee (AC), and Executive Compensation (EXC), show insignificant relationships with both ROA and ROE, as indicated by their high p-values (greater than 0.05).

This insignificance due to various reasons. First, these governance factors may not have a direct impact on financial performance in the sample companies. For instance, BS and AC might influence other areas like strategic decisions or compliance, but not directly affect profitability. Second, the sample size or the diversity of the companies analyzed may limit the ability to detect significant correlations. Additionally, the influence of external factors like market conditions, industry trends, or economic cycles could diminish the relationship between these governance factors and financial performance. Finally, it's possible that the effect of these variables on ROA and ROE is mediated by other factors, such as company-specific characteristics or management quality, which are not captured in this analysis.

4.4 Regression Analysis of Variables

Regression analysis is a statistical method used to examine the relationship between corporate governance variables and the performance of hydropower companies. This analysis helps in identifying how independent variables, such as board size, audit committee effectiveness, age of sample company, and managerial incentives, impact the dependent variable, which is typically a performance metric like return on assets (ROA)

or return on equity (ROE). By using regression models, researchers can determine the strength, direction, and significance of these relationships. In the context of hydropower companies, effective corporate governance is crucial for ensuring operational efficiency, financial stability, and investor confidence, ultimately influencing overall performance. The analysis can reveal which governance factors are most critical, aiding in policy formulation and strategic decisions to enhance company performance.

The Multiple Regression of ROA

The equation for this regression module is as follows:

$$ROA = \beta_0 + \beta_1BS + \beta_2Age + \beta_3lev + \beta_4AC + \beta_5EC$$

Table 12

Model summary on ROA

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.491 ^a	.241	.083	2.37768

a. Predictors: (Constant), EXC, AC, ASC, LTDR, BS

Source: Spss Analysis

In this above table shows that the model summary indicates that the regression model explains 24.1% of the variance in the dependent variable, as shown by the R Square value of 0.241. The adjusted R Square of 0.083 suggests that, after adjusting for the number of predictors, only 8.3% of the variance is explained, reflecting a moderate fit of the model. The standard error of the estimate is 2.37768, indicating the average distance that the observed values fall from the regression line.

In this table 13 shows that the ANOVA table shows that the regression model, with a sum of squares of 43.197, explains a portion of the total variance in Return on Assets (ROA) across five predictors. The F-statistic value of 1.528 with a significance level of 0.218 indicates that the model is not statistically significant, suggesting that the predictors do not collectively explain ROA effectively.

Table 13

ANOVA on ROA

ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	43.197	5	8.639	1.528	.218 ^b
Residual	135.681	24	5.653		
Total	178.878	29			

a. Dependent Variable: ROA

b. Predictors: (Constant), EXC, AC, ASC, LTDR, BS

Source: SPSS Analysis

The residual sum of squares of 135.681 highlights the variance unexplained by the model, implying limited predictive power.

Table 14

Coefficients of variables on ROA

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.127	4.085		.766	.451
BS	-.332	.429	-.164	-.774	.446
ASC	.069	.034	.434	2.048	.042
LTDR	-.008	.029	-.060	-.288	.776
AC	.877	.636	.254	1.378	.018
EXC	-4.932E-9	.000	-.131	-.615	.544

a. Dependent Variable: ROA

Source: SPSS Analysis

In table 14 shows that the regression coefficients table shows how each independent variable affects the dependent variable, Return on Assets (ROA). The unstandardized coefficients (B) represent the change in ROA for each unit change in the predictor variable. Among the predictors, ASC (Audit Committee Size) and AC (Audit Committee) are significant, with p-values of 0.042 and 0.018, respectively, indicating they have a statistically significant impact on ROA. The other variables BS (Board Size), LTDR (Long-term Debt Ratio), and EXC (Executive Compensation) are insignificant, with p-values greater than 0.05, suggesting they do not have a meaningful effect on ROA in this model.

In this regression analysis, variables like Board Size (BS), Long-term Debt Ratio (LTDR), and Executive Compensation (EXC) are insignificant because their p-values exceed 0.05, indicating they do not have a statistically meaningful impact on Return on Assets (ROA). One reason that these variables do not directly influence ROA in the context of the companies analyzed, or their effects may be overshadowed by other factors like the size or age of the company, which show significance. Additionally, insufficient variation in the data might limit the ability to detect meaningful relationships. Lastly, the sample size or model specification may not capture the complexity of the influence these variables have on financial performance.

The equation for this regression module is as follows:

$$ROE = \beta_0 + \beta_1BS + \beta_2Age + \beta_3lev + \beta_4AC + \beta_5EC$$

Table 15

Model summary on ROE

Model Summary				
Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.644 ^a	.414	.292	3.80923

a. Predictors: (Constant), EXC, AC, ASC, LTDR, BS

Source: SPSS Analysis

In this Table 15 shows that the model summary indicates that the regression model explains 41.4% of the variance in the dependent variable, as shown by the R Square value of 0.414. The adjusted R Square of 0.292 suggests that, after adjusting for the number of predictors, 29.2% of the variance is explained, reflecting a moderate fit.

Table 4.14
ANOVA on ROE

ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	246.192	5	49.238	3.393	.019 ^b
Residual	348.245	24	14.510		
Total	594.437	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), EXC, AC, ASC, LTDR, BS

Source: SPSS Analysis

In this above Table 4.14 shows that the ANOVA table shows that the regression model significantly predicts Return on Equity (ROE), with an F-value of 3.393 and a p-value of 0.019, indicating that the model is statistically significant. The regression sum of squares is 246.192, showing the variance explained by the predictors, while the residual sum of squares is 348.245, representing the unexplained variance. This suggests that the independent variables collectively have a meaningful impact on ROE.

In the Table 4.15 shows that the coefficients table provides insights into the impact of each predictor variable on Return on Equity (ROE). The unstandardized coefficients (B) represent the effect of each independent variable on ROE. Among the variables, LTDR (Long-term Debt Ratio) is significant with a p-value of 0.002, indicating a strong positive impact on ROE, and BS (Board Size) is also significant with a p-value of 0.032, showing a negative impact. Other variables ASC (Audit Committee Size), AC (Audit Committee), and EXC (Executive Compensation) are not significant, as their p-values are above 0.05, indicating they do not significantly affect ROE in this model. Table 4.15

Coefficients of variables on ROE

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	12.563	6.544		1.920	.067
BS	-1.571	.688	-.424	-2.284	.032
ASC	.088	.054	.305	1.637	.115
LTDR	.158	.047	.621	3.380	.002
AC	.687	1.019	.109	.674	.507
EXC	1.480E-8	.000	.216	1.152	.261

a. Dependent Variable: ROE

Source: SPSS Analysis

In this regression analysis, variables like Audit Committee Size (ASC), Audit Committee (AC), and Executive Compensation (EXC) show insignificant relationships with Return on Equity (ROE) because their p-values exceed 0.05. This could be due to several reasons. First, these governance factors may not have a direct or immediate impact on the profitability and equity returns of hydropower companies in Nepal. They might influence other aspects, like strategic decision-making or compliance, which are not reflected in ROE. Additionally, the relatively small sample size or limited variation in the data could make it difficult to detect significant effects. External factors like regulatory or market conditions might also play a more dominant role in influencing performance, reducing the direct impact of these governance variables on ROE.

4.5 Discussion

This study examined impact of corporate governance and performance of hydropower company for a ten (10) year period (2013/14-2022/23) after the analyzed of performance of selected hydropower company. The selected company for our study are the three (3) bases on deposit with best practices and comparable financial reports. Descriptive statistics tests were then calculated first to ascertain the nature of the dataset. Regression

analysis and correlation analysis were carried out to test the various set for this study. Results of the various tests are discussed in the succeeding sections.

The discussion of corporate governance and performance in Nepalese hydropower companies aligns with several findings from the reviewed literature, specifically regarding the impact of board size, audit committees, and other governance factors. The correlation and regression results suggest that audit committee size (ASC) and audit committee presence (AC) significantly impact Return on Assets (ROA), consistent with Khatiwada and Acharya (2022), who highlighted the positive role of robust governance frameworks in enhancing performance in the hydropower sector. Similarly, the significant impact of long-term debt ratio (LTDR) on Return on Equity (ROE) mirrors the findings of Shrestha & Pant (2016), which emphasized the importance of strategic financial governance in improving operational efficiency. The negative relationship between board size (BS) and ROE is in line with Silwal (2015), which identified board size as a critical factor negatively influencing firm performance. The insignificant impact of executive compensation (EXC) on both ROA and ROE aligns with Mandal and Alahdal (2018), who found that not all corporate governance elements directly correlate with improved financial outcomes. These findings collectively suggest that while certain governance practices such as audit committees and debt management significantly enhance performance, other factors like board size may require optimization to ensure positive financial impacts in the context of Nepalese hydropower companies.

Comparing to theories

The findings from the correlation and regression analyses can be compared to existing corporate governance and financial performance theories to assess their alignment.

Correlation Analysis and Theories

Positive Correlation of Age of Sample Company (ASC) with ROA and BS

Theory: The resource-based view suggests that older firms accumulate valuable resources and capabilities over time, contributing to better performance metrics like ROA. Similarly, larger boards, common in older companies, might bring diverse

expertise, aligning with agency theory which advocates for enhanced governance mechanisms to monitor and guide management.

Finding: ASC's positive correlation with ROA ($r = 0.391$, $p = 0.032$) supports these theories, indicating that experience and established practices in older companies contribute to asset efficiency.

Positive Correlation of LTDR with ROE

Theory: Capital structure theories like the trade-off theory argue that debt, up to an optimal level, can enhance shareholder returns due to tax benefits and leveraging effects.

Finding: The significant positive correlation between LTDR and ROE ($r = 0.454$, $p = 0.012$) aligns with this, suggesting effective debt utilization in sample companies.

Negative Correlation of EXC with LTDR

Theory: Jensen and Meckling's agency theory postulates that higher debt might constrain excessive managerial compensation as debt providers monitor management closely.

Finding: The negative correlation ($r = -0.457$, $p = 0.011$) supports this notion, highlighting governance mechanisms in high-debt firms.

Regression Analysis and Theories

Significance of ASC and AC on ROA

Theory: Stakeholder theory emphasizes the role of governance mechanisms like audit committees in ensuring accountability and financial transparency, positively influencing performance.

Finding: ASC and AC significantly impact ROA ($p = 0.042$ and $p = 0.018$, respectively), reinforcing this theory. Audit committees likely enhance asset utilization through better oversight.

Significance of LTDR and BS on ROE

Theory: While capital structure theories explain LTDR's positive impact on ROE ($p = 0.002$), the negative impact of BS ($p = 0.032$) could reflect diminishing returns from board size, as suggested by stewardship theory, where overly large boards hinder decision-making.

Insignificance of EXC and Other Variables

Theory: The contingency theory implies that the impact of governance variables like EXC depends on contextual factors like industry, market conditions, or company-specific characteristics.

Finding: Insignificant relationships for EXC and other variables support this, suggesting that their influence may be indirect or mediated by unexamined factors.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter consists of mainly three parts: Summary, conclusion and recommendation. Here, presents the conclusions of the study. It starts with a summary of the findings and then provides recommendations as well as areas of further research.

5.1 Summary

This study explores the relationship between corporate governance practices and the financial performance of hydropower companies in Nepal. The research objectives were to identify major governance practices, analyze their impact on performance, and evaluate the effects of specific governance variables, including board size, executive compensation, and audit committees, on performance indicators like Return on Assets (ROA) and Return on Equity (ROE). The study emphasizes the critical role of corporate governance in ensuring transparency and efficiency, particularly for the growing hydropower sector in Nepal. Performance measures like ROA and ROE serve as benchmarks to gauge the effectiveness of governance practices. The theoretical review outlined frameworks like agency theory and stakeholder theory to provide foundational insights into governance dynamics. The empirical review analyzed global and regional studies, highlighting gaps in Nepal's context. A significant research gap was identified in the limited focus on specific governance variables and their nuanced effects on financial outcomes in Nepal's hydropower sector.

The study employed quantitative methods, analyzing a dataset of financial and governance variables from a sample of hydropower companies. Dependent variables included ROA and ROE, while independent variables were board size, company age, leverage (debt ratio), audit committee effectiveness, and executive compensation. Data were collected from company reports, regulatory filings, and other secondary sources, and statistical analyses included correlation and regression models to determine relationships. The correlation analysis revealed key insights. Older companies demonstrated better ROA performance, supported by a significant positive correlation between company age (ASC) and ROA ($r = 0.391$, $p = 0.032$). Additionally, larger boards

were common in older firms ($r = 0.512$, $p = 0.004$). Long-term debt ratio (LTDR) had a significant positive effect on ROE ($r = 0.454$, $p = 0.012$), highlighting leveraging benefits. Conversely, executive compensation (EXC) negatively correlated with LTDR ($r = -0.457$, $p = 0.011$), suggesting cost-control measures in highly leveraged firms.

Regression analysis further confirmed these findings. Significant predictors for ROA included audit committee size and audit committee effectiveness, with p-values of 0.042 and 0.018, respectively. For ROE, LTDR positively impacted performance ($p = 0.002$), while board size (BS) negatively influenced equity returns ($p = 0.032$). However, other variables like ASC, AC, and EXC had insignificant effects on ROE, potentially due to limited sample variability, external market factors, or governance aspects affecting non-financial dimensions. The findings suggest that governance elements like audit committees and leveraging strategies play vital roles in enhancing hydropower companies' financial outcomes. However, the weak influence of other governance factors on ROA and ROE underlines the need for comprehensive governance reforms tailored to Nepal's unique hydropower context. The study also underscores the importance of future research focusing on larger, diverse datasets and qualitative governance aspects to capture broader impacts on performance. This research contributes to the limited literature on corporate governance in Nepal's hydropower industry, offering actionable insights for policymakers, investors, and company management to foster sustainable growth.

5.2 Conclusion

This study examines the impact of corporate governance on the performance of hydropower companies in Nepal, focusing on key governance factors such as board size, executive compensation, and audit committees. The findings reveal that while corporate governance practices are prevalent among hydropower companies, their impact on financial performance is mixed. The correlation analysis highlights that older companies tend to perform better in terms of asset returns (ROA), and these firms often have larger boards, suggesting that age and experience are beneficial. However, the regression results indicate that board size does not significantly influence ROA, while audit committees positively affect performance, underscoring their importance in governance.

Additionally, the study finds that long-term debt ratios positively impact Return on Equity (ROE), likely due to leveraging benefits, whereas higher executive compensation correlates negatively with debt levels, implying a trade-off between debt financing and pay structure. Overall, the results suggest that while certain governance factors like audit committees and company age positively impact performance, others, such as board size and executive compensation, show weak or insignificant effects. This highlights the need for tailored governance practices that enhance accountability and align with the specific characteristics of hydropower companies in Nepal.

5.3 Implications

These implications define the critical role of corporate governance in shaping the performance and sustainability of hydropower companies in Nepal, emphasizing the need for targeted reforms and strategic management practices.

- **Enhanced Accountability and Transparency** Strengthening corporate governance, especially through active audit committees, can improve transparency and accountability, fostering trust among investors, regulators, and stakeholders.
- **Optimizing Board Composition** the findings indicate that board size does not directly impact performance. This suggests that hydropower companies should focus on board quality and diversity rather than just size to drive effective decision-making.
- **Importance of Audit Committees** the positive impact of audit committees on performance underscores the need for robust internal controls and oversight mechanisms. Companies should prioritize strengthening their audit committees to enhance financial reporting and compliance.
- **Strategic Executive Compensation** the negative correlation between executive compensation and long-term debt suggests that companies should carefully structure pay packages to balance performance incentives with financial sustainability.

- **Leveraging Company Age and Experience** older companies tend to perform better, indicating that experience and institutional knowledge are valuable assets. Younger companies can benefit from mentorship and adopting best practices from more established firms.
- **Risk Management through Debt Optimization** the positive impact of long-term debt on ROE implies that strategic use of debt can enhance returns. Hydropower companies should carefully manage debt levels to optimize performance without compromising financial stability.
- **Policy and Regulatory Implications** Policymakers should encourage governance standards that focus on the effectiveness of board and committee functions, aligning regulations with international best practices to boost investor confidence.
- **Investor Confidence and Access to Capital** strong governance practices can enhance investor confidence, making it easier for hydropower companies to attract capital, both domestically and internationally, which is crucial for funding large-scale energy projects.
- **Sustainability and Long-term Growth** good governance supports sustainable growth by ensuring that companies make decisions that consider environmental, social, and governance (ESG) factors, which are increasingly important to stakeholders.
- **Tailored Governance Strategies** not all governance practices have a uniform impact on performance; companies need to assess and tailor their governance strategies based on their unique operational and market contexts to achieve the best outcomes.
- **Improving Financial Performance** by focusing on effective governance practices, such as enhancing audit functions and managing compensation policies, hydropower companies can directly improve financial performance indicators like ROA and ROE.

- Encouraging Research and Best Practices Sharing continuous research and sharing of best practices in corporate governance among hydropower companies can lead to improved performance sector-wide, enhancing the overall energy sector's contribution to Nepal's economy.

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