

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS

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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 FINANCIAL PERFORMANCE OF NEPALESE COMMERCIAL BANKS**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

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The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor, Arun Neupane and submit the thesis for evaluation and vice-voce examination.

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Perfection is anything can hardly be thought of knowing the universal fact "Human is Error", I Have taken utmost care to avoid errors, but I know they are inescapable, so I shall be obliged if they are forgiven.

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ABBREVIATION

C.V.	:	Coefficient of Variance
DFL	:	Degree of Financial Leverage
DPS	:	Dividend Per Share
EBIT	:	Earning Before Interest and Tax
EBL	:	Everest Bank Limited
EBT	:	Earning Before Tax
EPS	:	Earning Per Share
F.Y.	:	Fiscal Year
HBL	:	Himalayan Bank Limited
i.e.	:	Example
LTD	:	Long Term Debt
NI	:	Net Income
NIMB	:	Nepal Investment Mega Bank Limited
NOI	:	Net Operating Income
P.E	:	Probable Error
r	:	Correlation Coefficient
ROSE	:	Return on Shareholders' Equity
S.D.	:	Standard Deviation

ABSTRACT

This study examines the relationship between corporate governance and the performance of commercial private banks in Nepal, focusing on a sample of leading banks. The Nepalese banking sector has undergone significant changes and is now a major contributor to the economy. The study uses profitability indicators such as Return on Equity (ROE) and Return on Assets (ROA) as dependent variables, while the independent variables include various corporate governance factors. The findings suggest that the size of the Board of Directors (BOD) and the level of non-performing loans (NPLs) are negatively correlated with bank profitability. Conversely, board independence and the frequency of board meetings show a positive correlation with profitability. The results indicate a significant relationship between board size, board independence, the number of board meetings, and the profitability of banks. These correlations were validated through paired t-tests. Moreover, the study reveals that professional management is considered a crucial aspect of corporate governance. In terms of corporate governance priorities, respondents ranked shareholder protection as the most important issue, followed by professional management, and then timely disclosure. The analysis concludes that a larger BOD size is negatively related to profitability, while a higher frequency of board meetings is positively associated with profitability. In summary, better corporate governance practices are linked to improved financial performance, reflected in higher ROE for banks.

Keywords: Return on Assets, Return on Equity, Corporate Governance, Performance, Bank Size

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepalese businesses must adapt to global trends by implementing systematic approaches to corporate governance and adopting sound corporate practices. As companies grow, the importance of incentives, specialization, and good governance practices becomes increasingly significant. The Companies Act in Nepal establishes the foundational legal framework for corporate governance, but there remains a need to promote and implement

better corporate governance practices within the country's corporate sector. Key principles such as corporate discipline, transparency, independence, accountability, fairness, and social responsibility are crucial. Furthermore, Nepal must focus on enhancing the marketability of goods and services, improving leadership, and demonstrating greater transparency and social accountability (Issac, 2022).

Nepal is currently undergoing a period of transition, with ongoing political instability and uncertainty. Despite the political chaos and the underperformance of successive governments, the private sector has made significant contributions to the country's development. Initiatives at the grassroots level in sectors such as education, media, tourism, industry, and banking have played a critical role in Nepal's steady growth. This study aims to explore the state of corporate governance within Nepal's banking sector, particularly in light of the ongoing challenges and opportunities in the sector. Banks, as service institutions that manage public funds, have a special responsibility to uphold the highest standards of governance (Koji et al., 2020).

The management of people's money requires strict discipline across all levels of the bank its board of directors, management, and employees. A strong and ethical governance structure ensures that customers' deposits are safeguarded and that high standards of service are maintained. A cooperative and communicative relationship among all stakeholders is essential for the effective functioning of the bank. Employees, particularly those involved in financial management, must demonstrate high moral integrity and accountability, both to the organization and to society (Lungul et al., 2020).

This research is timely, as Nepal continues to face challenges related to poor governance and widespread politicization within government organizations. While privately run entities such as banks, schools, hospitals, and industries generally perform better, corporate governance principles are not consistently applied. A significant communication gap exists between the boards of directors and management, resulting in inefficiencies in governance (Inessa, 2010). This study focuses on examining the governance practices of banks in Nepal, particularly in the context of the five categories of financial institutions as defined by Nepal Rastra Bank. These categories include "A class" commercial banks, "B class" development banks, "C class" finance institutions, "D

class" microfinance banks, and cooperatives under "E class" (NRB, 2014). Despite a large number of financial institutions, the country's banking sector has seen steady growth, driven by initiatives in tourism, education, and media.

Corporate governance refers to the mechanisms, processes, and relationships through which companies are directed and controlled. Good corporate governance involves professionalism and high ethical standards in management and decision-making. It aims to balance economic goals with social responsibilities and align the interests of shareholders, directors, and other stakeholders. The governance framework should ensure efficient resource use while holding management accountable for their stewardship of the company's resources (Guluma, 2021).

The key players in corporate governance include shareholders, the board of directors, and top management. Stakeholders such as employees, suppliers, customers, and regulators also play significant roles in influencing governance practices. According to Wheelen and Hunger (2006), corporate governance is about maintaining relationships and aligning the interests of various parties involved in the corporation's operations. Ruin (2001) describes corporate governance as the process by which a group of people, united by a common purpose, directs, controls, and governs a company. Low (2003) emphasizes that corporate governance mechanisms exist to protect the interests of stakeholders by controlling corporate insiders and management.

Corporate governance is ultimately concerned with how companies are directed, administered, and controlled to meet both corporate goals and the interests of the broader community. The aim is to ensure long-term value creation for shareholders while considering the needs of other stakeholders (Cadbury, 1992; Lanno, 1999). Agency theory, as explained by Jensen and Meckling (1976), addresses conflicts of interest between owners (principals) and managers (agents) of a company. Agency costs arise when managers prioritize their interests over those of the owners, which can lead to inefficiencies and reduced value for shareholders. To mitigate these conflicts, effective corporate governance mechanisms must be established (Beasley, 1996).

Jensen (1994) identifies four categories of corporate governance mechanisms: legal and regulatory mechanisms, internal control mechanisms, external control mechanisms, and

product market competition. This study focuses on internal control mechanisms, which are within the company's control and can vary across organizations. Internal governance structures are designed to oversee and influence management actions to ensure they align with the company's objectives (Davidson et al., 2005).

Corporate governance plays a vital role in shaping the social and economic landscape of a country. It provides the framework through which companies are directed and controlled, specifying the distribution of rights and responsibilities among stakeholders, including shareholders, directors, and managers. Effective corporate governance helps achieve company objectives, improve performance, and safeguard stakeholder interests (Shrestha & Maharjan, 2023).

For emerging markets like Nepal, improving corporate governance can serve important public policy goals, such as reducing vulnerability to financial crises, promoting capital market development, and lowering transaction costs. Weak governance frameworks can deter investment and undermine market confidence, whereas robust governance practices attract investors and promote sustainable growth (Le & Nguyen, 2022).

Recent corporate scandals have underscored the importance of effective governance systems to prevent abuse of power and ensure accountability. In cases of unethical or illegal actions by corporate officers, an effective governance system includes provisions for prosecution and civil penalties (Sarkar & Gupta, 2015).

Overall, sound corporate governance can minimize default risks, enhance firm performance, and protect the interests of shareholders and other stakeholders. By implementing strong governance policies, companies can improve their organizational efficiency, reduce corruption, and create long-term value (Watts & Zimmerman, 1990).

Effective corporate governance practices can help reduce the likelihood of defaults while ensuring strong performance and sustaining high firm value. By establishing robust governance frameworks, organizations can better monitor and manage risks, which in turn help mitigate the potential for defaults. Implementing sound corporate governance policies brings numerous benefits across all levels of management, including preventing corruption, fostering transparency, and enhancing organizational efficiency. Additionally,

good governance contributes to increased firm value, strengthens shareholder returns, and reduces both investment and financial risks.

1.2 Problem Statement

Corporate governance and organizational performance have become critical topics of discussion in recent years. The growing importance of these concepts stems from the fact that many organizations, particularly in developing countries like Nepal, suffer from mismanagement, lack of corporate ethics, and unprofessional practices. The absence of strong corporate governance structures has been identified as a primary cause of organizational failures. As a result, it is essential for organizations aiming for long-term success and sustainability to prioritize and implement good corporate governance practices.

Corporate governance mechanisms are closely linked to economic and legal institutions, which can often be modified through political processes to yield better outcomes? Some might argue that governance reforms are unnecessary; assuming that market competition will naturally push firms to minimize costs. However, adopting effective corporate governance practices, including rules and regulations, allows companies to raise external capital more efficiently, reducing financing costs.

Numerous corporate governance issues have been documented, and they can lead to negative consequences such as managerial opportunism, where managers prioritize short-term gains at the expense of long-term value, potentially harming minority shareholders and creditors (DeAngelo et al., 1983). The economic crises in East Asia and other regions have further demonstrated how weaknesses in corporate governance such as inadequate regulatory frameworks, inconsistent accounting and auditing standards, poor banking practices, and lack of effective oversight by boards can exacerbate economic difficulties (Chomlou, 2000). These governance failures have often disproportionately impacted the most vulnerable populations, undermining social and economic progress.

In recent years, countries have recognized that strong corporate governance is not just a safeguard for companies but also a key driver of competitive advantage, economic growth, and social development. For this reason, it is essential to assess and improve the

corporate governance practices within Nepalese organizations, particularly in the banking sector.

Good corporate governance is crucial for all businesses, but it is especially vital in financial institutions, as they manage public funds and provide essential services to customers. Instances of financial irregularities in Nepal's Banks and Financial Institutions (BFIs) have often been linked to poor governance and ineffective management. On the one hand, a lack of skilled and qualified personnel hampers organizational performance; while on the other hand, nepotism and favoritism create an environment where irregularities and bias against qualified employees prevent effective governance and growth within these institutions.

Addressing the challenge of maintaining good governance and professionalism in Nepalese banks is vital for their future success. This study will provide insights into the governance practices of selected commercial banks, identify key components of effective corporate governance employed by these banks, and offer recommendations for strengthening governance structures in BFIs to ensure long-term sustainability and growth.

Following questions related to the corporate governance and performance in commercial banks in Nepal were answered by this study.

1. What are the key corporate governance issues faced by commercial banks in Nepal?
2. How does poor corporate governance impact the financial performance of commercial banks in Nepal?
3. What are the challenges in implementing good corporate governance practices in Nepalese commercial banks?

1.3 Objective of the study

The main objective of the study is to examine at the relationship between corporate governance procedures and the financial performance of Nepal's commercial banks. It aims to better understand how governance practices such as board structure, ownership concentration, transparency, and regulatory compliance affect these institutions' profitability, efficiency, and overall financial health. By evaluating this aspect, the

research hopes to give insights on how could enhance corporate governance standards in Nepal's banking industry to further enhance its stability and performance. However the specific objectives of the study are following to answer the questions raised in the statement of problems.

1. To analyze key corporate governance issues faced by commercial banks in Nepal include regulatory compliance, risk management, board effectiveness, and transparency.
2. To assess how poor corporate governance practices adversely affect the financial performance of commercial banks in Nepal.
3. To identify and analyze the specific challenges faced by Nepalese commercial banks in implementing effective corporate governance practices, including regulatory, cultural, and institutional barriers.

1.4 Rationale of the study

The study of corporate governance in Nepal's commercial banks is particularly significant analyzing the sector's role in promoting economic growth and financial stability. The banking industry plays a critical role in which allows investment, managing savings, and providing credit, all of which will have a direct impact on an entire economy. In recent years, Nepalese banks have been facing obstacles such as poor risk management, weak internal controls, and governance errors, leading in financial instability and an absence of stakeholder trust.

The goal of this study is to evaluate the effectiveness of these banks' existing corporate governance policies and the impact they have on financial performance. It proposes to fill the knowledge gap regarding the way governance mechanisms such as board structure, CEO compensation, and regulatory compliance affect the operational efficiency and financial health of Nepalese banks. The study will analyze these variables to give insights into how improved standards of governance could minimize risks, enhance transparency, and contribute to a more sustainable financial environment. The research will provide helpful information into areas for improvement along with concepts for enhancing governance systems. These proposals might help influence legislative reforms, strengthen regulatory measures, and encourage best practices in the banking industry. Finally, this

research planned to help Nepal establish a more flexible, transparent, and efficient banking system, which serves as crucial for sustaining economic growth and guaranteeing global financial stability.

Furthermore, the findings from this study will have implications for policymakers, regulators, and bank management by offering recommendations for reforms and best practices. This will help in strengthening the regulatory framework, improving investor confidence, and ultimately contributing to the sustainable development of the banking sector in Nepal.

1.5 Limitations of the study

1. This study will focus on solely on the banking industry. As a result, the findings of this study may not apply to all industries.
2. This study will be based on secondary data. They will be collected from annual report of concerned Banking Institutions, and other different journals. So reliability of the data will depend on the publications of the data by the organizations respectively.
3. The study may be affected by changes in regulations or policies during the research period, which can impact corporate governance practices and financial performance.
4. Only selected statistical and financial tools will be employed in the study to obtain the objective of the study.
5. Some banks might be reluctant to disclose sensitive information related to governance practices or performance, impacting the completeness of the data.

CHAPTER-II

LITERATURE REVIEW

A review of literature is an essential process in research that involves compiling, summarizing, evaluating, and clarifying previously published work on a specific topic by established scholars and researchers. It serves as the theoretical foundation for a study, helping to define the nature and direction of the research.

The purpose of a literature review is to explore what existing research has uncovered about a particular problem or area of interest. By critically examining the literature, researchers gain a deeper understanding of previous work and its relevance to the current study (Wolf & Panta, 2005). This review not only provides insight into the state of the field but also highlights gaps in knowledge, revealing areas that require further exploration.

A well-conducted literature review enables researchers to establish a solid theoretical framework, which is essential for formulating hypotheses to be tested in the course of the study. It helps identify what has been studied, what remains to be explored, and how the new research can contribute to advancing the field.

Literature is typically reviewed in two main ways for research purposes: the narrative review and the systematic review.

- i. Conceptual Review
- ii. Theoretical Review
- iii. Empirical Review

2.1 Conceptual Review

2.1.1 Overview of Corporate Governance

Corporate governance refers to the set of principles, rules, relationships, and processes through which an organization's authority is exercised and managed. It involves the interactions and responsibilities among various stakeholders, including the board of directors, management, shareholders, and other groups such as employees, customers,

suppliers, and the wider community (Le & Nguyen, 2022). Corporate governance aims to ensure accountability, transparency, and fairness in a company's relationship with all its stakeholders, thereby fostering trust and long-term sustainability.

The development of corporate governance in Asia, particularly in non-OECD countries, has been shaped by several global initiatives, including the OECD Principles of Corporate Governance and the World Bank's efforts to enhance governance frameworks. Since the Asian financial crisis of the late 1990s, improving corporate governance in the region has been crucial for fostering economic stability, attracting foreign investments, and strengthening the legal and regulatory frameworks of individual countries (OECD, 2005). Asia's transition from traditional business practices to more transparent and accountable systems has been a significant focus of international collaboration, such as the Asian Roundtable on Corporate Governance (Sysink & Paape, 2016).

2.1.2 Key Concepts in Corporate Governance

Corporate governance is a dynamic and multifaceted concept that includes several interrelated principles, which can be broken down into key components:

- 1. Accountability:** Accountability is at the heart of corporate governance, ensuring that the management team, particularly the board of directors, is responsible to shareholders and other stakeholders for the performance and decision-making processes of the company (Oktari, 2020).
- 2. Transparency:** Transparency involves making relevant information available to stakeholders, enabling them to make informed decisions. It includes financial disclosures, internal controls, and business practices that are open and easily understood (Mustafa, et al., 2018).
- 3. Fairness:** This concept focuses on ensuring equitable treatment for all shareholders, particularly minority shareholders, and protecting their rights. Ensuring fairness in the corporate governance framework is fundamental to building trust and reducing potential conflicts of interest (Mustafa, et al., 2018).

4. Responsibility: Corporate governance involves ensuring that companies are accountable not only to their shareholders but also to other stakeholders, such as employees, customers, and the environment (Mustafa et al., 2018).

2.1.3 Importance of Corporate Governance

Corporate governance plays a pivotal role in shaping the operational environment of companies. Well-structured governance systems lead to improved performance, investor confidence, and regulatory compliance, which in turn contribute to the sustainable development of the economy (Mustafa, et al., 2018). The key importance of corporate governance can be summarized in the following aspects:

1. Investor Confidence: Robust corporate governance practices enhance transparency and accountability, thereby building trust among investors. This trust encourages both local and international investments, which are crucial for economic growth (Mustafa, et al., 2018).

2. Risk Mitigation and Compliance: Strong governance frameworks help mitigate the risks associated with corporate misconduct, fraud, and mismanagement. Well-designed boards with clear roles and responsibilities can oversee management practices and ensure adherence to ethical standards and legal compliance (Sarkar & Gupta, 2015).

3. Long-term Sustainability: Corporate governance frameworks foster long-term value creation by aligning the interests of stakeholders with the long-term goals of the company. The governance structure ensures that management decisions are in the best interest of the company's future sustainability (Oktari et al., 2020).

4. Regulatory and Legal Compliance: A clear governance framework ensures that companies comply with national and international legal standards, reducing the likelihood of legal penalties, reputational damage, or market destabilization (Oktari et al., 2020).

5. Improved Organizational Performance: A well-managed board that oversees strategic direction, financial performance, and ethical practices can significantly enhance a company's overall performance (Oktari et al., 2020). Effective governance fosters accountability and strategic focus, contributing to operational efficiency.

2.1.4 Types of Corporate Governance Mechanisms

Corporate governance mechanisms are typically classified into internal and external mechanisms.

1. Internal Corporate Governance Mechanisms: These are the mechanisms that are part of the organization's structure, including the role of the board of directors, ownership structures, executive compensation, and internal controls. They ensure that the company is managed in accordance with the interests of shareholders and stakeholders (Oktari et al., 2020). For example, having independent directors on the board and establishing committees such as audit and remuneration committees are common internal mechanisms used to enhance governance.

2. External Corporate Governance Mechanisms: These mechanisms are external to the company, such as market forces, regulators, auditors, and the legal system. These mechanisms influence corporate behavior by holding companies accountable to regulatory requirements and public scrutiny (Oktari et al., 2020). The role of financial markets, public reporting standards, and external auditing bodies plays an important part in maintaining transparency and accountability.

2.1.5 Role of Corporate Governance in Asia

In Asia, corporate governance has seen considerable evolution, especially following the financial crises that affected the region in the late 1990s. The Asian Roundtable on Corporate Governance was established to promote the adoption of OECD principles and enhance governance frameworks across the region. Several reforms have been undertaken to address weak corporate governance practices, especially in emerging economies such as India, China, and Nepal (Oktari et al., 2020).

1. Legal and Regulatory Reforms: Many Asian countries have updated their corporate governance frameworks to increase transparency, protect minority shareholders, and reduce conflicts of interest. The introduction of regulations such as the Sarbanes-Oxley Act in the U.S. and similar measures in Asia has emphasized the importance of financial reporting, auditing, and the role of independent directors (Oktari et al., 2020).

2. Strengthening the Role of Boards: In many Asian countries, boards of directors have increasingly been tasked with providing oversight and strategic guidance. Independent boards, which act as a counterbalance to management, play a crucial role in enhancing governance practices. Countries like Japan and India have implemented measures to increase board independence (Shrestha & Maharjan, 2023).

3. Enhancing Transparency and Accountability: Countries such as Singapore, Hong Kong, and India have implemented stringent financial disclosure requirements and corporate governance codes that encourage companies to provide greater transparency regarding financial matters, executive compensation, and related-party transactions (Sarkar & Gupta, 2015).

2.1.6 Corporate Governance in Nepal

Nepal, like many other emerging economies, has made efforts to strengthen corporate governance frameworks, especially in the wake of global initiatives such as the OECD's White Paper on Corporate Governance in Asia. Key reforms include the modernization of the Nepal Stock Exchange and strengthening of the Securities Board of Nepal (SEBON) (SEBON, 2013). Nepal's regulatory reforms aim to improve transparency, accountability, and the protection of minority shareholders.

1. SEBON's Role: The Securities Board of Nepal has been working to enhance corporate governance through improved regulatory frameworks, with a focus on financial reporting and investor protection (SEBON, 2013).

2. FNCCI's Efforts: The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) have introduced several initiatives aimed at encouraging ethical business practices and enhancing governance within Nepalese companies. Through its Corporate Governance Group, the FNCCI offers guidance and advocates for the adoption of corporate governance standards (FNCCI, 2005).

Corporate governance is a cornerstone for building sustainable business practices and ensuring the long-term success of companies. In Asia, countries have made substantial progress in adopting international governance standards, with a particular focus on transparency, shareholder rights, and board independence. In Nepal, ongoing efforts by

regulatory bodies like SEBON and industry groups like FNCCI are helping to improve governance standards. Through continued reform and international collaboration, Asia and Nepal are striving toward more efficient, transparent, and accountable business environments.

2.2 Theoretical Review

Corporate governance refers to the system by which corporations are directed and controlled, and it plays a vital role in shaping how companies make decisions, interact with stakeholders, and allocate resources. Several theories offer different perspectives on the role of corporate governance in achieving organizational objectives, protecting stakeholders' interests, and ensuring accountability. The following are five prominent theories that are closely correlated with the concept of corporate governance:

A. Agency Theory

Agency theory (Jensen & Meckling, 1976) explains the relationship between principals (shareholders) and agents (managers), where the managers may not always act in the best interests of shareholders due to differing goals or risk preferences. In corporate governance, this theory highlights the importance of mechanisms that align the interests of managers with those of shareholders, such as performance-based incentives, board oversight, and shareholder voting rights. Strong corporate governance structures can mitigate agency costs and reduce conflicts of interest, ensuring that managers make decisions that are in the best interests of shareholders and other stakeholders.

B. Stewardship Theory

Stewardship theory (Davis et al., 1997) presents a contrasting view to agency theory, suggesting that managers, when empowered and trusted, will act as stewards of the organization, protecting and enhancing the value of the company for all stakeholders. According to this theory, good corporate governance practices can create an environment where managers act in the long-term interests of both shareholders and other stakeholders, such as employees and customers. By focusing on fostering trust and autonomy, stewardship theory emphasizes the importance of ethical leadership and

alignment with the company's strategic goals, thereby contributing to long-term sustainability and success.

C. Resource Dependency Theory

Resource dependency theory (Pfeffer & Salancik, 1978) posits that organizations are dependent on external resources for survival and success, such as capital, information, and technology. In the context of corporate governance, this theory emphasizes the role of the board of directors in securing access to these critical resources, such as financial capital and expertise, while ensuring that the company complies with regulations and market expectations. A well-functioning board can mediate the external pressures and dependencies that organizations face, ensuring that corporate governance structures effectively align internal operations with external demands, thus reducing risk and enhancing corporate performance.

D. Stakeholder Theory

Stakeholder theory (Freeman, 1984) suggests that companies should not solely focus on maximizing shareholder wealth but should also consider the interests of other stakeholders, such as employees, customers, creditors, suppliers, and the wider community. In corporate governance, this theory advocates for a broader view of corporate responsibility, where decision-making processes take into account the well-being of all parties involved. By recognizing the diverse interests and rights of stakeholders, corporate governance frameworks can create a more ethical, sustainable, and socially responsible business environment. This theory is particularly relevant in modern governance, where firms are expected to integrate environmental, social, and governance (ESG) factors into their strategic decision-making.

E. Transaction Cost Economics

Transaction cost economics (Williamson, 1981) explores how firms organize their activities to minimize the costs associated with transactions, such as searching for information, negotiating contracts, and enforcing agreements. In the context of corporate governance, this theory suggests that companies adopt governance mechanisms that reduce transaction costs by ensuring efficient decision-making, transparency, and

accountability. For example, clear contractual arrangements between stakeholders, effective regulatory frameworks, and robust internal controls can lower the costs of doing business and mitigate the risks associated with opportunistic behavior. Corporate governance, through well-structured processes, can thus help firms reduce inefficiencies and enhance long-term value creation.

These five theories offer distinct perspectives on corporate governance, each emphasizing different aspects of decision-making, stakeholder engagement, and organizational effectiveness. Agency theory highlights the importance of aligning managerial and shareholder interests, while stewardship theory focuses on trust and ethical leadership. Resource dependency theory underscores the role of boards in securing external resources, while stakeholder theory advocates for a broader focus on all parties involved in the company. Finally, transaction cost economics provides insights into how effective governance structures can reduce inefficiencies and lower transaction costs. Together, these theories illustrate the multifaceted nature of corporate governance and its critical role in enhancing organizational performance, transparency, and accountability.

2.3 Empirical Review

Bui and Krajcsak (2024) investigated the relationship between corporate governance (CG) and financial performance in publicly listed companies in Vietnam between 2019 and 2021. Their aim was to explore how effective governance practices can impact a firm's financial outcomes and provide insights for improving CG standards. The study used the Generalized Method of Moments (GMM) to address dynamic endogeneity, with financial performance measured by Tobin's Q, Return on Equity (ROE), and Return on Assets (ROA). The findings revealed a positive relationship between transparency in CG and financial performance, as well as a correlation between CG and company size. However, no significant relationship was found between shareholder rights or board responsibility and financial performance. Additionally, the COVID-19 pandemic caused a decline in transparency scores in 2021 due to delayed shareholder meetings. The study suggests that good CG practices positively influence financial performance, which is crucial for investor decision-making.

Dongol and Shrestha (2024) aimed to evaluate the influence of corporate governance mechanisms and bank-specific factors on the performance of Nepalese commercial banks. They used secondary data from four listed banks (2013-2023) and analyzed it using SPSS software. Their findings showed that while board size had a favorable but statistically insignificant effect on earnings per share (EPS), board independence had a significant negative impact on EPS. Capital adequacy ratio was found to have a positive correlation with EPS, while firm size did not significantly affect EPS. This study suggested that certain governance factors like capital adequacy play a crucial role in improving financial performance.

Farawansyah et al. (2024) explored the effect of financial performance and corporate governance on firm value, focusing on manufacturing companies listed on the Indonesia Stock Exchange. The study investigated the impact of profitability, solvency, liquidity, and corporate governance factors like the audit committee and independent board of commissioners. Using secondary data from 143 manufacturing firms, the study applied multiple linear regression analysis, along with various diagnostic tests such as the Kolmogorov-Smirnov test, multicollinearity, and heteroscedasticity tests. The findings showed that the independent board of commissioners, profitability, solvency, liquidity, and audit committees all positively affected firm value. The study emphasized the importance of good corporate governance practices and financial performance in enhancing firm value.

Mashele et al., (2024) examined the impact of corporate governance on the financial performance of family and non-family businesses in South Africa. Their study focused on ownership structures, board size, and gender diversity. Secondary data from listed family and non-family businesses between 2015 and 2019 were collected using purposive sampling. Panel data analysis and descriptive statistics were used to evaluate the relationships between governance variables and financial performance. The results indicated that family businesses with concentrated ownership, larger boards, and gender diversity in board composition tended to have better financial performance. For non-family businesses, only board size had a significant impact on financial performance. The study recommended that both family and non-family businesses improve governance

practices by appointing more female directors and adjusting board size to enhance financial outcomes.

Affes and Jarboui (2023) examined the impact of corporate governance on the financial performance of companies in the UK, focusing on various business sectors. They used multivariate regressions and FGLS models to analyze data from 160 companies over the period 2005-2018. Their findings indicated that the implementation of strong corporate governance practices led to improvements in financial performance, particularly in return on equity (ROE). This research suggested that good governance is beneficial across sectors and can lead to more robust financial outcomes.

Chalabi and Jarraya (2023) explored the relationship between good corporate governance and improved financial performance in shareholding companies. Through a review of existing literature, they concluded that effective governance practices enhance financial performance by fostering transparency, accountability, and investor confidence. The study emphasized that good governance mechanisms are essential for attracting investors and improving the overall performance of firms.

Pradhan et al. (2023) conducted a study to analyze the influence of corporate governance mechanisms on the financial performance of commercial banks in Nepal. The researchers utilized secondary data covering a period of 11 years (2010-2020), which was obtained from the Banking and Financial Statistics published by Nepal Rastra Bank. Additionally, various published articles and reports were incorporated into the study. Using multiple regression analysis, they found positive relationships between bank performance (measured by ROA, ROE, and market-to-book ratio) and factors such as board size, independent directors, board age, foreign ownership, and bank size. However, they observed negative relationships with board meetings and government ownership. This research highlighted how governance mechanisms influence the financial performance of banks in Nepal.

Shrestha and Maharjan (2023) investigated the impact of corporate governance on the financial performance of commercial banks in Nepal. The study analyzed a sample of 20 commercial banks using panel data regression analysis to explore the relationship between governance factors and bank performance. The findings revealed that both board

size and the presence of independent directors were positively associated with financial performance, as measured by Return on Assets (ROA) and Return on Equity (ROE). The authors concluded that banks with stronger corporate governance structures are likely to perform better, attributing this to improved decision-making and more effective risk management.

Temba et al., (2023) examined the impact of corporate governance on the financial performance of commercial banks in Tanzania, focusing on aspects such as asset quality, efficiency, earnings ability, capital adequacy, and liquidity. The study used panel data from 15 commercial banks over a period of 17 years, analyzing the data with multiple linear regressions to identify causal relationships. The results showed that board aspects of governance, board members' over-boarding, and other governance mechanisms positively influenced banks' earnings ability, asset quality, and capital adequacy. However, board gender diversity and governance controls negatively affected the efficient use of equity and liquidity. The study recommended enhancing corporate governance mechanisms to improve the financial performance of commercial banks.

Goet (2022) conducted a study to explore the effects of bank-specific characteristics, including board size, firm size, foreign ownership, and credit-to-deposit ratio, on the financial performance of listed commercial banks in Nepal. The study analyzed panel data from 7 listed banks (70 observations) and used correlation and causal research methodologies. The findings indicated that board size, business size, foreign ownership, and credit-to-deposit ratio all had positive relationships with the banks' financial performance, particularly their return on equity (ROE).

Thanh and Van (2022) explored the impact of corporate governance on firm value, focusing on the mediating roles of corporate social responsibility (CSR) and organizational identification in SMEs in emerging economies. The study employed covariance-based structural equation modeling (CB-SEM) to analyze the data. The findings indicated that corporate governance positively influenced firm value, with CSR and organizational identification playing significant mediating roles. This highlights the importance of governance in enhancing firm value and provides practical implications for managers in SMEs in emerging markets.

Isaac (2022) examined the contribution of corporate governance to the performance of listed companies in Kenya, particularly in the context of leadership and governance. The study used primary data from 62 companies listed on the Nairobi Securities Exchange, analyzed using SPSS. The findings showed that corporate governance had a significant impact on leadership performance. The study recommended that boards of directors actively promote long-term performance and take measures to address political interferences, ethnicity, and nepotism, which were found to negatively affect company performance.

David et al. (2021) investigated the impact of corporate governance characteristics on the performance of government-linked companies (GLCs) in Malaysia and Singapore. Using panel data from 20 Malaysian and 20 Singaporean GLCs between 2012 and 2017, the study found that board size and leverage were positively related to firm performance in Singapore. However, directors' ownership negatively impacted performance in Malaysia. The study highlighted how corporate governance characteristics can vary between countries and influence firm performance differently.

Guluma (2021) analyzed how corporate governance mechanisms affect firm performance, particularly in the context of managerial overconfidence. Using panel data from 11,634 Chinese listed firms between 2010 and 2018, the study employed the Generalized Method of Moments (GMM) estimation model. The results revealed that ownership concentration and market competition positively impacted firm performance. However, managerial overconfidence negatively moderated the relationship between corporate governance and performance, highlighting the importance of considering managerial behavior in governance studies.

Subedi (2021) investigated the impact of corporate governance on the financial performance of insurance companies in Nepal. Employing a causal-relational research design and multiple linear regression analysis, the study analyzed data from various Nepalese insurance companies. The results showed that corporate governance had a significant effect on firm performance. Specifically, board size had a negative impact on ROA, while firm size and ownership positively influenced both ROA and ROE. The study also found that the debt-to-equity ratio negatively affected ROE.

Lungul et al. (2020) analyzed the relationship between corporate governance and firm performance in emerging countries, with a specific focus on Romania. The study conducted a structured literature review using data from the Web of Science, analyzing 114 papers on corporate governance and performance in Romania. The review showed a growing interest in the topic, with a focus on quantitative research and national corporate governance policies. The study identified gaps in research and suggested that more attention be given to under-researched areas in emerging markets.

Oktari et al. (2020) assessed the effect of corporate governance mechanisms, such as board independence and managerial ownership, on company performance in Indonesia. The study analyzed secondary data from 103 companies listed on the Indonesia Stock Exchange (2015–2018) using SPSS for data analysis. The results indicated that the board of commissioners, managerial ownership, and audit quality had a significant impact on company performance, while company size did not appear to have a significant control effect.

Koji et al. (2020) explored the relationship between corporate governance and financial performance in family and non-family firms in Japan. The study, which analyzed data from 1,412 firms over the period 2014–2018, found that family firms outperformed non-family firms in terms of Tobin's Q but not in ROA. Institutional shareholding was positively related to performance for both types of firms, while board size encouraged performance in non-family firms but not in family firms. The study also found that family firms led by descendants of the founder performed better than those led by the founder.

Sapkota (2020) explored the link between corporate governance and the financial performance of commercial banks in Nepal for the period 2008/09 to 2017/18. The study revealed that board meetings and liquidity negatively affected financial performance. However, factors such as board size and ownership concentration did not show a significant impact on performance. The findings pointed to mixed results, suggesting that not all corporate governance mechanisms consistently influence the financial performance of banks.

G.C. and Baral (2019) examined the connections between corporate governance, ownership structure, and firm performance in Nepalese listed companies. The study

utilized panel data from 25 firms listed on the Nepal Stock Exchange (NEPSE) from 2012 to 2016. The findings indicated that ownership concentration had a positive impact on firm performance but negatively affected corporate governance practices. The research highlighted the significance of smaller board sizes, the presence of independent directors, and enhanced transparency standards for improving both corporate governance and firm performance.

Gnawali (2018) focused on analyzing the structure and level of corporate governance in Nepalese commercial banks and its effects on their financial performance. Using a descriptive research design and both primary and secondary data, the study concluded that corporate governance played a significant role in enhancing transparency, accountability, and ultimately the financial performance of these banks. The study emphasized the importance of governance practices in fostering better performance and stability in the banking sector.

Mustafa et al. (2018) examined the relationship between corporate governance practices and company performance in medium and large enterprises in Kosovo. The study, which surveyed 87 managers from medium and large enterprises, found that corporate governance had a more significant impact on larger companies. It also identified that the size of the company, investment level, and market experience played a key role in the adoption of corporate governance practices, suggesting that larger companies with more resources tend to implement more governance measures.

Berardino (2016) explored the relationship between corporate governance, ownership structure, and firm performance in academic spin-offs in Italy. Using primary data from Italian academic spin-offs, the study examined various aspects of corporate governance, industry characteristics, and financial performance. The findings revealed that corporate governance factors had a significant impact on firm performance. Additionally, the study highlighted inefficiencies when academic founders also held managerial roles, suggesting that bringing in more external expertise could enhance performance in these firms.

Sysink and Paape (2016) analyzed the relationship between good governance and corporate performance by analyzing over 59 academic articles published in the past decade. Their white paper, which combined perspectives from both academics and the

corporate community, identified governance variables that significantly contribute to corporate performance. The study highlighted that while organizational culture and risk management are increasingly important in corporate governance debates, they remain under-researched in academic literature.

Inessa (2010) examined the relationship between corporate governance and firm performance globally, focusing on valuation, operating performance, and stock returns. The study surveyed existing literature on corporate governance and its impact on performance, noting challenges related to endogeneity issues in these studies. The findings suggested that while most research shows a positive relationship between corporate governance and performance, endogeneity remains a critical issue, and corporate governance may evolve depending on a firm's specific characteristics and external environment.

Table 1

Summary of Empirical Review

Author	Date	Objectives	Findings
Bui and Krajcsak	2024	To investigate the relationship between corporate governance (CG) and financial performance.	Found a positive relationship between CG transparency and financial performance. No significant link was found between shareholder rights or board responsibility and financial performance. The COVID-19 pandemic caused a decline in transparency scores. Good CG practices positively affect financial performance.
Dongol and Shrestha	2024	To evaluate the influence of corporate governance factors (Board Size, Board Independence, and Capital Adequacy Ratio) and bank-specific factors (Dividend Payout Ratio, Firm Size) on the performance (EPS) of Nepalese commercial banks.	Board Size had a favorable but statistically insignificant effect on EPS; Board Independence had a significant negative impact on EPS. Capital Adequacy Ratio positively influenced EPS.
Farawansyah et al.	2024	To investigate the effect of financial performance and corporate governance on firm value in manufacturing companies.	Profitability, solvency, liquidity, and audit committees had a positive effect on firm value. Good corporate governance and financial performance practices are crucial in enhancing firm value.
Mashele et al.	2024	To compare the impact of corporate governance on the financial performance of family and non-family businesses in South Africa.	Family businesses with concentrated ownership, larger boards, and gender diversity had better financial performance. Non-family businesses showed that only board size had a significant impact on

Affes and Jarboui	2023	To explore the effect of corporate governance practices on financial performance (ROE) across different business sectors in the UK.	financial performance. Recommendations included increasing female board members and adjusting board size for better outcomes. Effective corporate governance significantly improves financial performance, especially Return on Equity (ROE), across multiple sectors.
Chalabi and Jarraya	2023	To assess how corporate governance mechanisms (transparency, accountability, independent directors) influence financial performance in shareholding companies.	Good corporate governance leads to improved financial performance by enhancing transparency, accountability, and investor confidence, which attracts potential investors.
Pradhan et al.	2023	To examine the impact of corporate governance mechanisms (Board Size, Independent Directors, Board Meetings, Bank Size, etc.) on financial performance (ROA, ROE, MB Ratio) in Nepalese commercial banks.	Positive relationship between financial performance and Board Size, Independent Directors, Board Age, Foreign Ownership, and Bank Size. Negative relationship with Board Meetings and Government Ownership.
Shrestha and Maharjan	2023	To investigate the impact of corporate governance on the financial performance of commercial banks in Nepal.	The study found that board size and the presence of independent directors positively influence financial performance (measured by ROA and ROE). Effective corporate governance structures enhance decision-making and risk management, leading to better performance.
Temba et al.	2023	To examine the impact of corporate governance on the financial performance of commercial banks in Tanzania, focusing on asset quality, efficiency, and liquidity.	Corporate governance positively influenced banks' earnings ability, asset quality, and capital adequacy. However, gender diversity and governance controls negatively affected the efficient use of equity and liquidity. Strong governance practices were recommended to improve financial performance.
Goet	2022	To investigate the effect of specific bank characteristics (Board Size, Firm Size, Foreign Ownership, Credit-to-Deposit Ratio) on the financial performance (ROE) of listed Nepalese commercial banks.	Positive relationship found between Board Size, Business Size, Foreign Ownership, and Credit-to-Deposit Ratio with financial performance (ROE).
Isaac	2022	To analyze the contribution of corporate governance on leadership performance in Kenyan listed companies.	Good corporate governance is critical for leadership performance, emphasizing long-term financial performance, market performance, and the importance of a strong governance structure.
Thanh and Van	2022	To explore the impact of corporate governance on	Corporate governance positively impacts firm value. CSR and organizational

		firm value, focusing on the mediating roles of CSR and organizational identification in SMEs in emerging economies.	identification mediate this relationship, highlighting the importance of governance in balancing economic, social, and environmental values.
David et al.	2021	To investigate the impact of corporate governance on firm performance in Government-Linked Companies (GLCs) in Malaysia and Singapore.	Corporate governance affects firm performance. In Malaysia, directors' ownership negatively impacts performance, while in Singapore, board size positively impacts firm performance.
Guluma	2021	To examine the role of corporate governance measures and managerial overconfidence in influencing firm performance in Chinese listed firms.	Ownership concentration and market competition positively influence firm performance, while managerial overconfidence negatively moderates governance-performance relationships.
Subedi	2021	To analyze the role of corporate governance in the financial performance of insurance companies in Nepal.	Board size negatively affects ROA, while firm size and ownership positively affect ROA and ROE. Debt-to-equity ratio negatively impacts ROE in Nepal's insurance sector.
Lungul et al.	2020	To review the literature on corporate governance and performance, focusing on research from emerging countries, particularly Romania.	A growing body of research on corporate governance and firm performance exists in Romania. Most studies use quantitative methods, and the research has mostly been conducted by a few universities.
Oktari et al.,	2020	To analyze the impact of corporate governance mechanisms (board composition, ownership, audit quality) on company performance in Indonesia.	Board composition, managerial ownership, foreign ownership, and audit quality significantly impact company performance. However, company size did not serve as a control variable for performance.
Koji et al.,	2020	To compare the impact of corporate governance on firm performance between family and non-family firms in Japan's manufacturing sector	Family firms outperform non-family firms in terms of Tobin's Q. Board size positively affects non-family firms, while institutional shareholding supports performance for both types.
Sapkota	2020	To determine the impact of corporate governance (Board Meetings, Board Size, Ownership Concentration) on financial performance (ROE) of Nepalese commercial banks.	Board Meetings and Liquidity had a negative impact on bank performance. Board Size and Ownership Concentration did not have a significant effect on financial performance.
G.C. and Baral	2019	To analyze the relationship between corporate governance, ownership structure, and firm performance in Nepalese listed companies.	Ownership concentration positively impacts performance but negatively affects corporate governance. Smaller Board Sizes, Independent Directors, and better transparency were found crucial for good governance and performance.
Gnawali	2018	To analyze the relationship	Corporate governance has a significant

		between corporate governance structures (transparency, accountability, disclosure) and financial performance in Nepalese commercial banks.	impact on improving the financial performance of Nepalese banks by ensuring greater transparency, accountability, and enhancing investor confidence.
Mustafa et al.,	2018	To analyze the impact of corporate governance on firm performance among medium and large enterprises in Kosovo.	Corporate governance practices have a greater impact on larger companies. Company size, investment, export activities, and market experience are significant determinants in adopting governance practices.
Berardino	2016	To explore the relationship between governance features, ownership structure, and performance in academic spin-offs in Italy.	Academic spin-offs in Italy show that governance and managerial competence affect performance. Overlap between academic founders and managers reduce governance efficiency.
Sysink and Paape	2016	To identify key governance variables that contribute to corporate performance, based on a review of over 59 academic articles.	Identifies governance variables such as organizational culture and risk management that contribute to corporate performance. These areas are rarely studied in public debates on governance.
Inessa	2010	To evaluate the relationship between corporate governance and performance worldwide, focusing on issues of endogeneity.	Corporate governance is positively associated with various performance metrics, though endogeneity issues remain. Corporate governance develops based on firm-specific characteristics and its environment.

2.4 Research Gap

Previous research on corporate governance has primarily focused on decision-making and control mechanisms, particularly the structure and functioning of the board of directors (BOD), ownership structure, organizational culture, and cohesion, all of which contribute to improved organizational performance. Key tasks of the BOD include strategic decision-making, as well as the identification and appointment of senior management, particularly the CEO. Some studies have also used governance indices to show that shareholder rights are associated with higher profitability, increased sales growth, and lower capital expenditure, all of which reflect good governance practices.

This study, however, focuses on the banking sector in Nepal, specifically Class A commercial banks, including NABIL Bank Ltd, Everest Bank Ltd, and Himalayan Bank Ltd, to evaluate corporate governance practices. The researcher found that no systematic study on this topic has been conducted in the Nepalese context. For this research, primary

data was collected through a questionnaire, while secondary data was gathered from financial reports, research journals, and both published and unpublished reports.

In this study, corporate governance is treated as the dependent variable, with independent variables including BOD independence, board size, audit quality, accounting systems, financial report disclosures, organizational performance, shareholder involvement in board selection, voting rights, and the legal environment. Additionally, the opinions of top-level personnel were evaluated to understand how they manage their organizations with strong corporate governance practices.

CHAPTER- III

RESEARCH METHODOLOGY

Research methodology refers to the numerous processes adopted by the researchers during the research period. The main objective of this research work is to examine the impact of corporate governance practices on the financial performance of Nepalese commercial banks. The study was applied the method and process systematically and scientifically in investigation of the problem, analyze the data and achieves the objective of the study.

3.1 Research Design

The research combines a combination of descriptive and causal comparative research examine to evaluate the association between corporate governance and bank performance. The age of banks and total number of branches were considered control variables in this study. Similarly, the research examines corporate governance procedures in Nepalese commercial banks. The association between corporate governance and bank performance has been studied using multiple linear regressions. Panel data analysis employs the well-known multiple regression method. This study is empirical and employs various historical secondary data relating the impact of corporate governance on the performance of commercial banks in Nepal, as well as a deep study of annual reports of banks, bank supervision report, NRB directives, BASEL report, and OECD principles to analyze recent corporate governance practices by banks.

3.2 Population, Sample and Sampling Design

The study is based on the secondary data of commercial banks which are listed in Nepal Stock Exchange. As of mid-Jan 2024, there were a total of 20 commercial banks. The commercial banks comprise the largest share of assets in the banking industry although there were 20 listed commercial banks in Nepal Stock Exchange (NEPSE) 2024. These all commercial banks are population of this study. So, this study is concerned with only 20 commercial banks during the study period of 2014 to 2024. The study adopts purposive sampling method to select those banks which have traded in the NEPSE since 2014 for consistency of the data. Total 235 observations have used to analyze

relationship between corporate governance and bank performance in Nepal. Apart from this, the study is also based on frequent review of corporate governance related documents of commercial banks, Nepal Rastra Bank and BASEL committee to analyze corporate governance practices in the context of commercial banks in Nepal. To identify the practices of corporate governance, this study is focused on in- depth study of annual reports disclosed by joint venture, government and private domestic commercial banks from 2014/15 to 2024/25 in Nepal.

3.3 Nature and Sources Data

The study will be based on recent ten years data from Fiscal year 2071/2072 to 2081/82. The secondary data will be obtained from the annual reports of the commercial banks and NEPSE. The study depends primarily on secondary data supplied by Nepalese commercial banks, Nepal Rastra Bank, the BASEL committee, the organization for Economic Cooperation and Development (OECD), and the Bank and Banking Institutions Act. Data from "Annual Reports to Shareholders" by keen banks, together with different newspapers and newspapers and magazines, are collected as needed for research. This qualitative study examines historical data from 20 Nepalese commercial banks. This research evaluates the NRB's consistent regulations as well as bank executive reports. These banks' yearly reports are studied by downloading them from their official websites. The purpose for adopting annual reports is that the yearly report is the most recognizable document usually created by institutions in Nepal.

3.4 Research framework and definition of variables

The research framework for this study was developed based on the literature review, which suggests that the relationship between corporate governance and firm performance is influenced by several control variables. These control variables help explain the variation in firm performance. While the independent variables impact the dependent variable, the relationship between the dependent and independent variables can also be affected by these control variables. Therefore, the effect of control variables is taken into account when examining the relationship between dependent and independent variables. These control variables are closely related to both corporate governance and firm performance, and their influence on firm performance is considered in the study. Based

on the literature review, the following theoretical framework has been proposed, as illustrated in Figure 1. A brief description of the variables and their measurements is provided in the table.

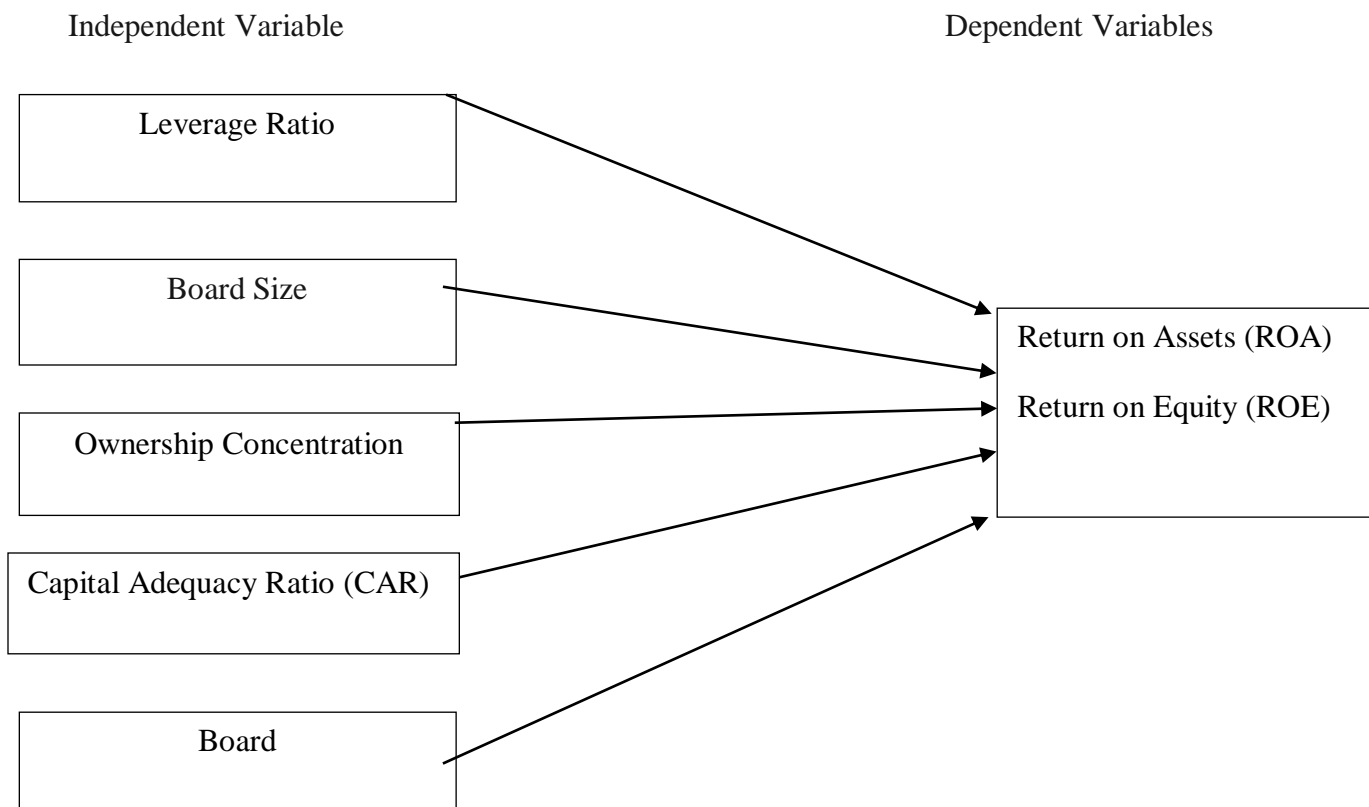


Figure 1 Research Framework

3.4.1 Independent variables

Leverage Ratio

In the framework of corporate governance and financial performance of Nepalese commercial banks, the leverage ratio can be a significant independent variable. The leverage ratio, which is commonly determined as the ratio of a bank's debt to its equity, demonstrates the amount to which a bank utilizes borrowed capital to back up its assets. A larger leverage ratio indicates that the bank invests completely on debt, which may raise both the risks and the benefits. When examining the impact of corporate governance on financial performance, leverage ratios become essential because governance structures and practices could influence a bank's willingness to take risks, capital structure decisions, and finally, financial stability. Effective corporate governance could assist

banks maintain an optimal leverage ratio by implementing relevant risk management regulations.

Board Size

In the framework of corporate governance and financial performance of Nepalese commercial banks, board size is a key independent variable. Board size refers to the total number of directors serving on a company's board, which can influence the organization's overall strategy and management decisions. A stronger board size may provide multiple perspectives, knowledge, and abilities to decision-making and provide powerful supervision, which could enhance a bank's financial performance. However, it could lead to communication issues and delay decision-making processes. A narrower board, on the other hand, could allow for better coordination and efficient decision-making but deficient the variety of perception mandatory for thorough strategic supervision. In Nepalese commercial banks, the optimal board size is one that enables for effective governance without eliminating agility or efficiency. As a result, evaluating board size as an independent variable permits us to gain an appreciation for exactly how variations in board membership may affect the financial results of these institutions, delivering observations about perfect management structures that encourage financial performance and strength.

Ownership Concentration

Regarding researching the corporate governance and financial performance of Nepalese commercial banks, ownership concentration is an important independent variable that should be considered. It refers to the proportion of shares held by key owners, such as institutional investors or a small group of luxurious individuals. In the case of Nepalese commercial banks, ownership concentration could impact the coordination of interests between owners and management, influencing the bank's decision-making procedures and overall performance. High ownership concentration frequently leads in active monitoring and evaluation of management actions, could be leading to more effective governance methods. This concentrated ownership system can help minimize agency concerns, in which managers' interests could differ from those of shareholders. As an outcome, banks with a higher ownership concentration may have stronger financial

results, as controlling shareholders were familiar with the resources and motivation to ensure that the bank performs efficiently and successfully. However, excessive concentration gained the potential to strengthen power, minimize management responsibility, and discourage technological advancement. As consequently, determining how it impacts of ownership concentration on financial performance will be crucial when analyzing Nepal's commercial banks' corporate governance.

Board Meetings

In regards to corporate governance and financial performance of Nepalese commercial banks, the frequency and quality of board meetings could represent crucial independent variables. Board meetings are essential for facilitating effective supervision and strategic decision-making the interior of a business organization. In the course of these meetings, the board of directors could examine operations, evaluate performance, and make significant choices affecting the bank's financial stability. Regular and organized board meetings give an opportunity to debate significant problems, coordinate management operations with the objectives of shareholders, and make sure regulatory compliance. In Nepalese commercial banks, where corporate governance structures could still be emerging, board meetings play an even more important role. Frequent board meetings could improve management transparency and responsibility, which leads to stronger financial results. As a result of that, researching how it impacts of board meeting frequency on these institutions' financial performance could deliver beneficial information into their effectiveness of governance methods in Nepal's banking sector.

Dependent variables

Return on assets (ROA)

Net profit divided by total assets is the definition of return on assets. The return on assets, often known as the firm's return on total assets, measures how well management uses its available assets to generate profit. Return on assets (ROA) quantifies the profit made for every rupee invested in assets and shows how well the management utilizes its real investment resources to produce profits. Higher positive value of ROA is desirable to the Company. This ratio is computed by dividing the net profit after tax by total assets of the Company. Total assets consist of current assets and net fixed assets of the Company.

$$\text{Return on assets (ROA)} = \frac{\text{Net profit after tax}}{\text{total assets}}$$

Return on equity (ROE)

The percentage of net income returned to shareholders' equity is known as the return on equity. Return on equity, which shows how much profit a Company makes using the money shareholders have invested, calculates a corporation's profitability. Higher positive value of ROE is preferable which indicates effective management of a firm at generating income and growth from its equity financing. This ratio measures the profit on each rupee of shareholders. Shareholders fund includes preference share capital, ordinary share capital, share premium and reserve and surplus less accumulated losses.

$$\text{Return on equity (ROE)} = \frac{\text{Net profit after tax}}{\text{shareholders fund}}$$

3.5 Method of analysis

Mean, standard deviation and C.V will be calculated to analyze capital structure and profitability components. To find out the relationship between capital structure and profitability, correlation and regression analysis will be done where the capital structure will be regressed against the profitability to find out which component of capital structure have significant influence on the profitability. The results of the regression analysis will be interpreted based on the R square, significance of F statistics and the significance of beta values from the coefficients of the X variables. Significance will be tested at 5% level.

The regression line will represented by the model.

$$\text{ROA} = \alpha + \beta_2 \text{LR} + \beta_1 \text{BS} + \beta_3 \text{OC} + \beta_4 \text{BM} + \beta_5 \text{CAR} + \beta_5 \text{TAN} + e_t$$

$$\text{ROE} = \alpha + \beta_2 \text{LR} + \beta_1 \text{BS} + \beta_3 \text{OC} + \beta_4 \text{BM} + \beta_5 \text{CAR} + \beta_5 \text{TAN} + e_t$$

$$\text{EPS} = \alpha + \beta_2 \text{LR} + \beta_1 \text{BS} + \beta_3 \text{OC} + \beta_4 \text{BM} + \beta_5 \text{CAR} + \beta_5 \text{TAN} + e_t$$

Where,

ROA= Return on assets,

ROE= Return on equity

BS= Board size

OC= Ownership concentration

B= Board

CHAPTER- IV

RESULTS AND DISCUSSION

This chapter includes data presentation and analysis. The data and information collected from the respondents are presented and analyzed according to response of respondents. The researcher personally distributed and collected all the questionnaires. The gathered data were analyzed using various tools and techniques. The findings from the analysis are systematically presented and thoroughly interpreted in the following sections.

4.1 Nature of the Respondents

The respondents were selected from a sample of commercial banks, including BOK, EBL, NABIL, GBIME, and SRBL. The data regarding the respondents' gender, age, qualifications, designation, and years of experience are presented as follows.

Table 2

Gender of the respondents

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

Source: Field survey, 2024

Table 2 shows that 80% of the respondents are male, while only 20% are female. This indicates a significantly higher proportion of male respondents compared to females in this study. Additionally, the following table presents the age distribution of the respondents.

Table 3

Age of the respondents

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

Source: Field survey, 2024

Table 3 categorizes the respondents' ages into three groups: below 30 years, between 30 and 40 years, and above 40 years. Among the total respondents, 28% are below 30 years, 48% fall between 30 and 40 years, and 12% are above 40 years. The age group of 30 to 40 years represents the largest proportion. The following table provides an overview of the respondents' educational qualifications.

Table 4

Academic qualification of the respondents

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

Source: Field survey, 2024

Table 4 presents the educational qualifications of the respondents. The majority, 50%, hold a graduate degree. Additionally, 30% of the respondents have completed a master's

degree, while 20% have an undergraduate qualification. Therefore, the highest proportion of respondents has a graduate-level education.

Table 5

Position or Designation of the respondents

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

Source: Field survey, 2024

Table 5 outlines the roles of the respondents, categorizing them into positions such as Chairman, Managing Director, Director, Deputy Director, and Assistant Director. According to the table, 8 respondents, or 16% of the total sample, are Directors. 17 respondents, representing 34% of the total, hold managerial positions. Additionally, 9 respondents (18%) are Assistant Managers, while 8 (16%) hold officer-level positions. Six respondents (12%) are Chartered Accountants, and 2 (4%) are from other roles, such as university professors. This shows that nearly half of the respondents are in managerial positions. The following section provides further details on the gender distribution of the respondents.

Table 6

The work experience of respondents in their professions

Work experience	Frequency	Percent	Cumulative Percent
Below 5 years	12	24.0	24.0
5 to10 years	23	46.0	70.0
Above 10 years	15	30.0	100.0
Total	50	100.0	

Source: Field survey, 2024

Table 6 shows that approximately 24% of the respondents have work experience of less than 5 years. Meanwhile, 46% of the respondents have between 5 to 10 years of professional experience, and 30% have over 10 years of work experience. The highest proportion of respondents, 46%, falls into the 5 to 10 years of experience category. The following table presents the respondents' job designations.

Awareness on Corporate Governance

Table 7

Awareness on Corporate Governance

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

Source: Field survey, 2024

To evaluate the respondents' awareness of Corporate Governance, 56% of the total respondents indicated that they are familiar with the concept, 16% stated that they have a

basic understanding, 4% considered themselves experts in the field, and 24% admitted to having very little knowledge. The majority of respondents reported being familiar with Corporate Governance, with this group making up the largest proportion.

Opinion of Respondents on Corporate Governance

Respondents were asked the question, "What is corporate governance, in your opinion?" The content of their responses was analyzed and compiled into a list, which is presented in the following section:

Table 8

Meaning of Corporate Governance by Respondents

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

Source: Field survey 2024 by using SPSS

Table 8 shows that 94% of respondents identified corporate governance as encompassing factors such as professional management, timely financial disclosure, ethical business practices, shareholder protection, and adherence to government rules and regulations. Additionally, 2% of respondents mentioned that corporate governance includes professional management, adherence to government regulations, and shareholder protection. This indicates that both higher-level and middle-level managers in Nepalese banks are generally aware of corporate governance principles.

Most important issues of corporate governance in Nepalese banking sector

Table 9

Most important issues of corporate governance

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

Source: Field survey 2024 by using SPSS

Regarding the key issues of corporate governance, 44% of respondents indicated that professional management is the most important aspect, while 24% emphasized the protection of shareholders' rights. Additionally, 20% of respondents highlighted the importance of timely disclosure, and 12% considered adherence to rules and regulations as the most critical issue. The majority of respondents placed the highest importance on professional management in the context of corporate governance.

Important aspects to make better Corporate Governance Status in Nepalese banking sector

In terms of improving corporate governance, the majority of respondents prioritized professional management as the most important factor. Timely financial disclosure was ranked second, followed by ethical business practices in third, equitable treatment of shareholders in fourth, and adherence to government regulations in fifth.

Table 10

Importance aspects to make better Corporate Governance Status

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

Source: Field survey, 2024

Table 10 shows that among the seven key issues, shareholder protection has the lowest mean rank of 2.52, while adherence to NRB directives ranks at 3.04. Timely financial disclosure has a mean rank of 4.78, followed by professional management with a rank of 4.92. The timely holding of AGMs and ethical business practices have a mean rank of 5.1, with the relationship between management and minority shareholders receiving the highest mean rank of 5.3.

Average situations in Nepalese banking sector

The respondents' perspectives on the separation of the roles of Chairman and CEO in the Nepalese banking sector are summarized as follows.

Table 11

Separation of roles of chairman and CEO

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

Source: Field survey, 2024

Regarding the separation of the roles of Chairman and CEO, 60% of respondents expressed agreement, while 40% disagreed. The majority of respondents supported the separation of these roles.

Table 12

Majority of directors are non- executive

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

Source: Field survey, 2024

Regarding the statement that the majority of directors are non-executive, 52% of respondents agreed, while 48% disagreed. Therefore, a higher proportion of respondents disagreed with this statement.

Table 13

Significant number of institutional investors is there

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

Source: Field survey, 2024

Regarding the presence of a significant number of investors, 36% of respondents agreed, while 64% disagreed. Therefore, the majority of respondents disagreed with this statement.

Table 14

The shareholder selects significant number of directors in AGM

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

Source: Field survey, 2024

Regarding the selection of a significant number of directors by outsiders, 42% of respondents agreed, while 58% disagreed. Therefore, the majority of respondents disagreed with this statement.

Table 15

Good shareholder's right of voting

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

Source: Field survey, 2024

Regarding the protection of shareholder voting rights, 78% of respondents agreed, while 22% disagreed. Thus, the majority of respondents were in favor of strong shareholder voting rights.

Table 16

Good reporting and information system

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

Source: Field survey 2024

Regarding the observation of good reporting, only 44% of the respondents agreed, while 56% disagreed. This indicates that a higher proportion of respondents were not satisfied with the reporting practices.

Table 17

Timely performance report reviewed

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

Source: Field survey, 2024

Regarding the timely review of performance reports, only 40% of respondents agreed, while 60% disagreed. This suggests that a significant majority of respondents felt that the performance reports were not reviewed in a timely manner.

Table 18

Satisfied in internal auditing and control system

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

Source: Field survey, 2024

Regarding satisfaction with the internal auditing and control system, 44% of respondents agreed, while 56% disagreed, indicating a relatively high level of dissatisfaction among the respondents.

Table 4.19

Professional management system

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

Source: Field survey, 2024

Regarding the professional management system, 44% of the respondents agreed, while 56% disagreed, suggesting a significant level of dissatisfaction among the respondents.

Table 20

Ethical businesses

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

Source: Field survey, 2024

In terms of ethical business practices, 54% of the respondents expressed agreement, while 46% disagreed. This indicates that a majority of respondents are in favor of ethical business practices.

Table 21

Timely financial audits

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

Source: Field survey, 2024

Regarding timely financial audits, 44% of the respondents agreed, while 56% disagreed. This shows that the majority of respondents are not satisfied with the timely execution of financial audits.

Table 22

Adequate financial disclosures

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

Source: Field survey 2024

Regarding adequate financial disclosure, 40% of the respondents agreed, while 60% disagreed. This indicates that a significant majority of respondents believe that the financial disclosure practices are insufficient.

Table 23

Good legal audit system

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

Source: Field survey 2024 by using SPSS

Regarding the effectiveness of the legal audit system, 48% of the respondents agreed, while 52% disagreed. This suggests that a majority of respondents believe the legal audit system is not functioning adequately.

Table 24

Good organization culture

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

Source: Field survey, 2024

Regarding organizational culture, 36% of respondents agreed, while 64% disagreed. This indicates that a significant majority of respondents believe the organization's culture is not well-established or effective.

Table 25

Good relationship of management with shareholders

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

Source: Field survey 2024 by using SPSS

In terms of the relationship between management and shareholders, only 38% of respondents agreed, while 62% disagreed. This suggests that a substantial majority of respondents feel that the relationship is not strong or effective.

Table 26

Good working environments

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

Source: Field survey 2024 by using SPSS

Regarding the working environment, 52% of respondents agreed, while 38% disagreed. This indicates that a majority of respondents are satisfied with the working environment.

Table 27

Good enhancement opportunities to employees

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

Regarding opportunities for employee development, 48% of respondents agreed, while 52% disagreed. This indicates that a majority of respondents feel that the organization does not provide sufficient opportunities for employee growth.

Information of Nepalese banking sector related to Corporate Governance system

The questionnaire included statements related to the corporate governance system in the Nepalese banking sector. A five-point Likert scale was utilized to gather the respondents' opinions.

Table 28

Information of Nepalese banking sector related to corporate governance

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

Source: Field survey, 2024

The mean rank for the statement "Managers should be professionals, not from the investor's team" is 6. In addition, the mean rank for "Nepalese banking sectors should adapt to the changing legal environment" is 3.96, while the mean rank for "Nepalese banking sectors should maintain a fair accounting system and disclose financial reports in a timely manner" is 4.56. The mean rank for the statement "The Nepalese banking sector is aware of its obligations towards shareholders and other stakeholders" is 3.38. The statement "Good corporate governance positively influences the company's performance" has a mean rank of 4.36. Lastly, the mean rank for "AGMs should be held within the stipulated time frame after the end of the fiscal year" is 4.

Corporate governance and Profitability of banks

The following sections present the respondents' views on various aspects of corporate governance, including the size of the Board of Directors (BOD), BOD independence, the frequency of BOD meetings, and their perceived impact on the profitability of banks. Additionally, the relationship between key financial performance indicators, such as Return on Equity (ROE) and Return on Assets (ROA), and corporate governance practices is also examined.

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

The following table addresses the question of whether the size of the Board of Directors (BOD) is negatively associated with profitability, presenting the respondents' perspectives on this issue.

Table 29

Size of Board of Director

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

Source: Field survey, 2024

Among the respondents, 40% believe that there is a negative relationship between the size of the Board of Directors (BOD) and the profitability of banks, suggesting that a smaller BOD is associated with higher profitability. Conversely, 10% of respondents strongly agree with this view, while 6% strongly disagree.

Board of Independence is positively related with bank's profitability

The question regarding whether the independence of the Board of Directors (BOD) is positively related to profitability is addressed in the following table, which presents the respondents' perspectives on this matter.

Table 30
Board of Independence

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

Source: Field survey, 2024

As shown in the table, 48% of respondents believe that the independence of the Board of Directors (BOD) is positively correlated with the profitability of banks. In other words, a higher level of BOD independence is associated with greater bank profitability, and vice versa. Additionally, 14% of respondents strongly agree with this view, while 2% strongly disagree.

Number of Board of meeting is positively related with bank's profitability

The question regarding whether the number of board meetings is positively related to a bank's profitability is addressed in the following table. This presents the respondents' views on the matter.

Table 31

Number of Board meeting

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

Source: Field survey, 2024

As shown in Table 31, 44% of respondents believe that the number of board meetings is positively related to the profitability of banks. In other words, the more frequent the board meetings, the higher the potential for profitability. Conversely, 12% of respondents strongly agree, while 4% strongly disagree with this view.

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

The question regarding whether better corporate governance leads to a higher Return on Equity (ROE) is addressed in the following table, which presents the respondents' views on this matter.

Table 32

Better corporate governance yield higher ROE

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

Source: Field survey, 2024

As presented in Table 32, 44% of the respondents agree that improved corporate governance results in higher Return on Equity (ROE) for banks. Furthermore, 20% strongly agree with this view, while 2% strongly disagree.

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

The question regarding whether better corporate governance leads to a higher Return on Assets (ROA) is addressed in the following table. The respondents' views on this matter are presented below.

Table 33

Better corporate governance yield higher ROA

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

Source: Field survey 2024 by using SPSS

As shown in Table 33, 40% of respondents believe that improved corporate governance results in higher ROA for banks. Among them, 16% strongly agree with this view, while 2% strongly disagree.

Ownership Concentration

Ownership concentration is a key independent variable when studying the corporate governance and financial performance of Nepalese commercial banks. It refers to the

percentage of shares controlled by major stakeholders, such as institutional investors or a select group of wealthy individuals.

Table 34

Ownership Concentration related with bank's Profitability

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

Source: Field survey, 2024

As shown in Table 34, 50% of respondents believe that ownership concentration leads to higher profitability in banks. In other words, a lower ownership concentration results in higher profits, and vice versa. Additionally, 6% of respondents strongly agree, while 6% strongly disagree with this perspective.

Descriptive Analysis of Corporate governance variables and profitability

The table below presents the mean and standard deviation of the corporate governance variables, including the size of the Board of Directors (BOD), board independence, number of BOD meetings, as well as profitability indicators such as Return on Equity (ROE), Return on Assets (ROA), and the non-performing loan ratio.

Table 35

Descriptive Analysis of Corporate governance variables and profitability

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

Source: Field survey, 2024

As shown in Table 35, the mean response for the corporate governance variable "board independence" is 3.52, indicating agreement (greater than 3 on a scale of 1 to 5). Similarly, respondents also agree that the size of the Board of Directors (BOD) and the number of BOD meetings contribute to higher profitability. In terms of profitability, respondents indicated that Return on Equity (ROE) is slightly higher than Return on Assets (ROA), with a mean score of 3.56, reflecting an agreement. Furthermore, respondents agree that a lower non-performing loan ratio correlates with higher profitability in banks. In terms of data fluctuation, ROA shows more variability, while board independence exhibits the least deviation among these variables.

Testing hypothesis

i. Null Hypothesis H_0 : There is no significant relationship between Board size and the Profitability of banks.

H₁ : There is a significant relationship between Board size and the Profitability of banks (ROE and ROA).

ii. H₀ :There is no significant relationship between Board Independency and the Profitability of banks (ROE and ROA).

H₁: There is a significant relationship between Board Independency and the Profitability of banks (ROE and ROA).

iii. H₀: There is no significant relationship between number of BOD meetings and the Profitability of banks (ROE and ROA).

H₁ : There is no significant relationship between Board Independency and the Profitability of banks (ROE and ROA).

iv. H₀ :The corporate governance variables are uncorrelated.

H₁ :The corporate governance variables are correlated.

Table 36

Correlation Matrix of Corporate governance and Profitability variables

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

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

By testing t-paired test,

Decision: Under P value approach, dependent variable Profitability (ROE and ROA) both are correlated (significant) in all independent variables since p value is less than significance level both 1% and 5%. For ROE, the portion of Board independence is highest and least size of BOD i.e. explained by 90.63% ($0.952 \times 0.952 = 0.9063$ i.e. 90.63%) and 82.45% (0.908×0.908) respectively and remaining by other variables/factors (unexplained factors). Similarly, For ROA, the portion of number of BOD meeting is highest and lowest is BOD independence i.e. explained by 95.84% ($0.979 \times 0.979 = 0.9584$ i.e. 95.84%) and 87.43% (0.935×0.935) respectively and remaining by other variables/factors (unexplained factors). Likewise, independent variables (Size of BOD, BOD independence, number of BOD meeting) are correlated since p value is .000 i.e. less than 0.01, 0.05, the variables are correlated that is accept H_1 and reject H_0 . Thus, the result concludes that there is significant relationship between board size and profitability of banks, board independence and profitability of banks, number of BOD meetings and profitability of banks and the corporate governance variables are correlated by testing the t-paired test.

Regression Analysis

This section basically deals with regression results from various specifications of the models to examine the impact of corporate governance on financial performance of the selected banks. In this section, an attempt also has been made to test the validity of the model through statistical test of significance such as t-test, F-test, coefficient of determination (R^2). The regression result shows impact of independent variable (corporate governance) and control variable (CD ratio, Interest, Bank Size and NPL to TL) on dependent variable (financial performance i.e. ROA and ROE) of selected commercial banks.

Table 37
Coefficient of Determination

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	1.000 ^a	1.000	.000	.000	1.000	.000	4	0	.000

a. Predictors: (Constant), BS OC, BOM ROA and ROE

Table 38
Model Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	Sig.	Collinearity Statistics	
		B	Std. Error	Beta		Tolerance	VIF
1	(Constant)	1.560	.000		0.00		
	Board Size	2.070	.000	2.592	0.02	.066	5.070
	Ow Con	.012	.000	1.330	0.00	.115	8.732
	Board	-.142	.000	-2.243	0.04	.079	1.683
	ROA	1.097	.000	.979	0.01	.080	2.566

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

The table 37 and 38 presents the regression results with VIF test and F test of the model's goodness. Findings from the Fishers ratio (i.e. the F-Statistics which is a proof of the

validity of the estimated model) as reflected in above table, indicates that, the F is about 0.00 and a p-value is also 0.00 which is ≤ 0.05 . Since the VIF statistic is less than 10 for each independent variable, there is no multicollinearity among the independent variables. Therefore, regression model with ordinary least square (OLS) can be used. Similarly, the R-Square which is often referred to as the coefficient of determination of the variables is 100%. The R-Square which is also a measure of the overall fitness of the model indicates that the model is capable of explaining about 100% of the variability the Return on Assets (ROA) of sample commercial banks. This means that the model explains about 100% of the systematic variation in the dependent variable. That is, about 100% of the variations in ROA of the Sample commercial banks are accounted for by other factors not captured by the model. So, The regression coefficient of Interest rate spread in the regression coefficient analysis is 2.070, it indicates that if we increased Interest rate spread by 1%, the average influence on the Return on Assets (ROA) will increase by 2.070 percent. Because the corresponding P value is 0.00, it is less than 0.05 significance level; hence there is significance relationship between return on assets (ROA) and Board Size Ownership concentration Board meeting of sample banks respectively. More ever, The regression coefficient of Size of banks in the regression coefficient analysis is 2.070, it indicates that if we Board meeting by 1%, the average influence on the Return on Assets (ROA) will increase by 2.070 percent. Similarly,

4.2 Discussion

The respondents 94% indicated that corporate governance encompasses multiple factors such as professional management, timely financial disclosures, ethical business practices, shareholder protection, and adherence to government regulations. The majority of respondents emphasized the importance of professional management in corporate governance. Regarding the separation of roles between Chairman and CEO, 60% of respondents agreed that this separation is beneficial. Overall, most respondents in the Nepalese banking sector are familiar with and aware of the concept of corporate governance. Regarding issues within corporate governance in Nepalese banks, the majority of respondents highlighted problems such as poor transparency in disclosures, inequitable treatment of minority shareholders, inappropriate rules and regulations,

treating the bank as a family business, AGM delays, and a lack of professional management.

In terms of priority issues within corporate governance, the majority of respondents ranked shareholder protection as the most important, followed by professional management in second place and timely disclosure in third. The highest mean rank is for the statement "Managers should be professionals, not from the investor's team" with a score of 4.6. The lowest mean rank is for "Nepalese banking sector has a realization of obligations toward shareholders and other stakeholders" with a score of 3.38. Among the respondents, 40% believe that the size of the Board of Directors (BOD) is negatively related to the profitability of banks, meaning that a smaller BOD leads to higher profitability.

48% of respondents agree that greater board independence is positively related to bank profitability. 44% of respondents believe that the frequency of board meetings is positively correlated with the profitability of banks. Additionally, 44% agree that better corporate governance leads to higher ROE. 40% of respondents believe that better corporate governance results in higher Return on Assets (ROA) for banks, while 50% agree that ownership concentration leads to higher profitability. The mean response for "Board independence" is 3.52, indicating agreement. Similarly, respondents agree that the size of the BOD and the number of BOD meetings are linked to higher profitability. In terms of profitability, ROE is rated slightly higher than ROA, with an agreement score of 3.56. Respondents also agree that lower non-performing loans correlate with higher profitability. The independent variables size of BOD, board independence, and the number of BOD meetings are found to be correlated, with a p-value of .000 (less than 0.01 and 0.05), indicating that these variables are significantly related. Thus, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted.

The primary issue identified by respondents regarding corporate governance in Nepalese banks is the treatment of minority shareholders, who are not given equitable treatment, along with inappropriate rules and regulations. Another significant issue is the treatment of banks as family businesses, with non-competent family members often being recruited. Other challenges include a lack of organizational policies and procedures, poor

transparency, and a lack of professional management. The average ROA for the selected banks is 1.73, indicating that the banks are optimally utilizing their assets. The maximum ROA observed is 1.95, while the minimum is 1.36, giving a range of 0.59. The standard deviation in ROA indicates a risk of 23.28% in the return on assets. The average ROE for the sampled banks is 15.18%. The maximum ROE observed is 17.57%, and the minimum is 11.86%, giving a range of 5.71%. The standard deviation in ROE indicates a risk of 2.07%.

The ownership concentration of selected banks is represented by the bank size. The average ownership concentration is 124.95%, with a maximum value of 159.04% and a minimum value of 95.65%. The range of ownership concentration is 63.40%, with a standard deviation of 25.495%. The average number of board meetings is 4.18, with a maximum of 4.59 and a minimum of 3.85, giving a range of 0.74. The standard deviation in board meetings is 0.29%. The average ownership concentration is 79.09%, with the maximum being 82.30% and the minimum 73.78%, giving a range of 8.51% and a standard deviation of 3.67%. The correlation between ROA and bank size is -0.441, indicating a negative relationship between ROA and the size of elected banks. The p-value is 0.457, which is greater than the significance level of 0.05, indicating that there is no significant relationship between ROA and board size. The correlation between ROA and the weighted average interest rate spread is 0.521, indicating a positive relationship between ROA and interest rate spread.

The p-value is 0.368, which is greater than 0.05, suggesting no significant relationship between ROA and interest rate spread. The correlation between ROA and ownership concentration is -0.266, indicating a negative relationship. The p-value is 0.665, which is greater than 0.05, meaning there is no significant relationship between ROA and ownership concentration. The correlation between ROA and the ratio of non-performing loans (NPL) to total loans is -0.367, indicating a negative relationship. The p-value is 0.543, which is greater than 0.05, suggesting no significant relationship between ROA and NPL to total loan ratio. The correlation between ROE and board size is 0.217, indicating a positive relationship. However, the corresponding p-value is 0.726, which is greater than 0.05, suggesting no significant relationship between ROE and board size.

The regression coefficient for bank size is -0.098, which means that if the size of the bank increases by 1%, the return on assets (ROE) will decrease by 0.098%.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

Corporate governance refers to the system by which rights and responsibilities are distributed among various participants within a corporation, such as the board of directors, management, shareholders, and other stakeholders. It establishes the rules and procedures for corporate operations to ensure that the organization functions on a sound and transparent basis. It is a comprehensive set of processes, customs, policies, laws, and institutions that guide how a corporation is managed, controlled, and directed. An important focus of corporate governance is addressing issues of accountability and fiduciary duty, promoting policies and mechanisms that encourage ethical behavior and protect shareholders' interests.

Corporate governance plays a pivotal role in enhancing investor confidence, boosting competitiveness, and contributing to overall economic growth. The board of directors is often central to the governance structure, bearing responsibility for approving the organization's strategy, formulating key policies, appointing, overseeing, and compensating senior management, as well as ensuring the organization's accountability to its shareholders and regulatory bodies.

Good corporate governance is a critical factor for corporate success and sustainable economic growth. Effective governance practices can strengthen investor confidence, lower the cost of capital, facilitate the efficient functioning of financial markets, and ultimately promote more stable financing options. In addition, a well-structured governance system can improve decision-making within the company, attracting additional investment and fostering growth. Strong governance also leads to better internal controls, resulting in greater accountability and higher profitability. Ultimately, good corporate governance builds a transparent, efficient, and fair decision-making framework that ensures robust management, effective human resource practices, and clear legal accountability.

Profitability in the banking sector reflects how effectively a bank utilizes its resources to optimize net profits. It serves as an indicator of asset utilization and managerial effectiveness. This study aims to evaluate the financial performance of selected banks in Nepal. Based on primary data, the research surveyed 50 respondents from various Nepalese banks, including Bank of Kathmandu (BOK), Everest Bank Limited (EBL), Nabil Bank, Global IME Bank (GBIME), and SRBL. The respondents provided insights into different aspects of corporate governance and the performance of Nepalese private banks.

5.2 Conclusion

This research examines the relationship between corporate governance practices and the financial performance of private commercial banks in Nepal, highlighting the significant impact that governance mechanisms have on profitability and operational efficiency. The study explores how various corporate governance variables, including the size and independence of the Board of Directors (BOD), the frequency of board meetings, and ownership concentration, influence key profitability metrics like Return on Assets (ROA) and Return on Equity (ROE).

The findings reveal that the size of the Board of Directors has a negative relationship with bank profitability, suggesting that larger boards may not necessarily enhance performance. This could be attributed to inefficiencies in decision-making or slower response times often associated with larger boards. In contrast, board independence and the frequency of board meetings are positively correlated with profitability, indicating that greater independence and active engagement by the board can lead to improved financial performance.

The study also highlights the importance of effective risk management, particularly in relation to non-performing loans (NPL). A significant negative relationship between NPL ratios and profitability was found, emphasizing the need for banks to maintain robust loan monitoring and risk mitigation strategies. On the other hand, factors such as interest rate spreads, the credit-deposit ratio (C-D ratio), and bank size were not found to have a direct impact on profitability in this study.

Ownership concentration also plays a role in profitability, with higher levels of ownership concentration associated with better returns on equity (ROE). This could suggest that a concentrated ownership structure aligns the interests of owners and management, potentially leading to more efficient decision-making processes.

Further, regression analysis indicates that the interest rate spread positively impacts ROA, meaning that banks could increase their profitability by adjusting their interest rates. However, the analysis also shows that excessive board meetings negatively affect ROA, which may indicate diminishing returns from overextended board activities or inefficiencies in the decision-making process.

In summary, the study highlights the importance of corporate governance elements such as board independence, the number of board meetings, and ownership concentration in driving the financial performance of Nepalese banks. While progress has been made in improving governance, there remains room for improvement, particularly in managing non-performing loans and optimizing board sizes. Strengthening corporate governance further could play a key role in ensuring the long-term profitability and stability of Nepal's banking sector.

5.3 Implications

The findings of this study offer significant insights for policymakers, researchers, government bodies, and stakeholders within Nepal's banking sector. Policymakers should consider revising corporate governance frameworks to promote optimal board sizes, enhance board independence, and encourage more frequent board meetings, as these factors have been positively linked to improved profitability. Additionally, the implementation of stronger regulations on non-performing loans (NPLs) and enhanced shareholder protection mechanisms would be crucial for safeguarding the financial stability of banks.

For future research, it would be beneficial to explore a broader array of performance metrics, conduct longitudinal studies, and compare the governance practices of Nepal's banks with those in other emerging economies. Such comparisons could offer valuable insights into potential areas of improvement and innovation.

The government and regulatory authorities should focus on strengthening the legal framework governing corporate governance, enforcing stricter NPL management practices, and promoting financial literacy among key stakeholders. These measures would improve decision-making processes, enhance stakeholder engagement, and ensure more robust governance practices within the banking sector.

Furthermore, banks themselves should prioritize optimizing their board structures, hiring professional management, and improving transparency through better communication with stakeholders. By addressing these governance challenges, Nepal's banking sector can not only enhance its financial performance but also bolster investor confidence and contribute more significantly to the country's overall economic growth.

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QUESTIONNAIRE

CORPORATE GOVERNANCE AND PERFORMANCE OF

PRIVATE SECTOR COMMERCIAL BANKS IN NEPAL

1. What is your Gender?
 - a. Male
 - b. Female
2. In which age group do you lie?
 - c. Below 30 Years
 - d. 30-40 years
 - e. Above 40 Years
3. What is your academic qualification?
 - a. Undergraduate
 - b. Graduate
 - c. Master
4. Please mention your Positions or Responsibility:
 - a. Directors
 - b. Manager
 - c. Assistant Manager
 - d. Officer
 - e. Charter Accountant
 - f. Others
5. How long is your Professional experience? (in year)

a. Below 5 years

b. 5 to 10 years

c. Above 10 years

6. Are you familiar with the concept of corporate governance? How far?

b. Very little

c. I am familiar

d. I can understand

e. I am expert in this area

f. Nothing

7. What is corporate governance in your opinion?

Professional management Timely financial disclosure

Ethical business Shareholders protection

Following government rules All of the above

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

Following rules and regulations of

-Government

-NRB directives

-Professional bodies

Professional management

-BoD

-Employee

-Ethical business

Protection of shareholders right

-Shareholder' protection

-Minority shareholder's issues

- Ethical business YES NO
- Timely financial audit YES NO
- Adequate financial disclosures YES NO
- Good Legal Audit system YES NO
- Good organizational culture YES NO
- Good relationship of Management with shareholders YES NO
- Good working environment YES NO
- Growth enhancement opportunities to employees YES NO

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

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

f.	Ownership Concentration is decreases because of the better corporate governance.	1	2	3	4	5
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13. Which is the most important tool for corporate governance in order to increase bank's profitability?

- a) ROE (Return on equity) b) Return on Assets (ROA)
c) Ownership Concentration (OWN)

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

.....
.....
.....
.....

15 Following issues are related to corporate governance system in Nepalese banking sector. Please read each of the following statement and circle at the appropriate given alternative number that comes very close to your opinion.		Strongly Disagree	Disagree	Neutral (Neither Agree Nor Disagree)	Agree	Strongly Agree
a.	Managers should be from professionals; not from the investors team	1	2	3	4	5
b.	Nepalese banking should cope with the changing legal environment	1	2	3	4	5

c.	<i>Commercial banks</i> should maintain fair accounting system and disclose financial reports timely	1	2	3	4	5
d.	Nepalese <i>banking sector</i> have realization of obligation towards shareholders and other stakeholders	1	2	3	4	5
e.	Good corporate governance positively effect the company 's performance	1	2	3	4	5
f.	AGM should be held within stipulated time after completing fiscal year	1	2	3	4	5

.....

Researcher

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE ...

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ABSTRACT This study examines the relationship between corporate governance and the performance of commercial private banks in Nepal, focusing on

a sample of leading banks. The

Nepalese banking sector has undergone significant **changes and is** now **a major** contributor to **the economy.**
The

study uses profitability indicators such

as Return on Equity (ROE) and Return on Assets (ROA) as dependent variables, while **the independent variables**

include various corporate governance factors. The findings suggest that the size of the Board of Directors (BOD) and the level of non-performing loans (NPLs) are