IMPACT OF CORPORATE GOVERNANCE ON PERFORMANCE OF PRIVATE SECTOR COMMERCIAL BANKS IN NEPAL

A Dissertation Submitted to Office of the Dean in Partial Fulfillment of the Requirements for the Degree of Masters of Business Studies (MBS)

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December 2024

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Impact of Corporate Governance on Performance of Private Commercial Banks in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purpose.

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

Min Raj Panday has defended research proposal entitled "**Impact of Corporate Governance on Performance of Private Commercial Banks in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidance of supervisor Mr. Dinesh Basnet and submit the dissertation for evaluation and Viva-Voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled "**Impact of Corporate Governance on Performance of Private Commercial Banks in Nepal**" presented by Min Raj Panday for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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ACKNOWLEDGEMENTS

I am delighted to present this dissertation entitled "**Impact of Corporate Governance on Performance of Private Commercial Banks in Nepal**" to the head of the research department, Shanker Dev Campus, in partial fulfillment of the requirement for the degree of Masters in Business Studies (MBS), Faculty of Management. Special thanks to my supervisor, Mr. Dinesh Basnet, whose support, cooperation, and valuable suggestions played a crucial role in the successful completion of this dissertation. Despite his busy schedule, he generously shared his expertise and provided guidance that significantly contributed to the quality of my work.

I would like to extend my appreciation to all the teachers and staff at Shanker Dev Campus for the assistance and cooperation. The willingness to share information and provide necessary resources, even amidst the busy schedules, has been instrumental in the progress of my study. The atmosphere of cooperation and friendliness at the campus has always motivated and inspired me. Furthermore, I am deeply grateful to Assoc. Prof. Dr. Sajeeb Kumar Shrestha, Chairperson of the Research Committee, for his valuable insights and contributions to the research process. His feedback and guidance have been invaluable in shaping the direction of my study. I also extend my thanks to Acting, Campus Chief, Joginder Goet for his encouragement and support throughout this academic journey. I am indebted to all those mentioned above and others who have, directly or indirectly, contributed to the successful completion of my dissertation. The collective efforts have made this academic endeavor a rewarding and enriching experience.

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ABBREVIATIONS

ANOVA	:	Analysis of Variance
BS	:	Bank Size
BZ	:	Board Size
C.V	:	Coefficient of Variance
Df	:	Degree of Freedom
GBIME	:	Global IME bank limited
KBL	:	Kumari bank limited
LEV	:	Leverage
NABIL	:	Nabil bank limited
NIC	:	NIC Asia bank limited
NIMB	:	NIMB bank limited
NPLs	:	Non-Performing Loan
PBL	:	Prabhu bank limited
PCBL	:	Prime commercial bank limited
ROA	:	Return on Assets
ROE	:	Return on Equity
S.D	:	Standard Deviation
STD	:	Standard Deviation
Sunrise	:	Sunrise bank limited

ABSTRACT

This study examines the impact of corporate governance practices on the financial performance of private commercial banks in Nepal, with a specific focus on four governance variables board size, financial leverage, non-performing loans (NPLs), and bank size and their relationship with two financial performance indicators, Return on Assets (ROA) and Return on Equity (ROE). The primary objective is to analyze the effect of these governance variables on the banks' financial performance using a descriptive, correlation, and regression analysis approach. The study adopts a purposive sampling technique, selecting eight private commercial banks from a total of twelve in Nepal, with data sourced from their annual financial reports. Descriptive statistics provide an overview of the key variables, including their mean, standard deviation, and range, offering insights into the current state of governance practices and financial outcomes. Correlation analysis identifies the strength and direction of relationships between the governance variables and financial performance, while regression analysis assesses the impact of these governance mechanisms on ROA and ROE, controlling for other factors. The findings reveal that board size and bank size are positively correlated with financial performance, while higher financial leverage and a greater proportion of non-performing loans have a negative impact on performance. These results indicate that effective corporate governance practices, such as larger boards and optimal leverage, can improve the financial performance of private commercial banks in Nepal. The study's implications highlight the need for stronger governance structures in the banking sector to enhance financial stability and performance. These insights can be valuable for policymakers, investors, and banking institutions in enhancing governance frameworks and ensuring sustainable growth.

Keywords: corporate governance, financial performance, private commercial banks, Nepal, regression analysis.

CHAPTER I
INTRODUCTION

1.1 Background of the Study

The financial performance of private commercial banks is crucial for the stability and growth of the banking sector, particularly in emerging economies like Nepal. In recent years, the corporate governance practices of banks have garnered significant attention due to their potential impact on organizational performance, especially in the wake of global financial crises and local economic challenges. Corporate governance mechanisms such as board size, leverage, non-performing loans (NPLs), and bank size play vital roles in shaping the strategic direction and operational efficiency of banks (Ngatia & Mandere, 2024). The growing need for better corporate governance structures in Nepalese commercial banks highlights the relevance of this study, which aims to assess the influence of governance on financial performance, particularly Return on Assets (ROA) and Return on Equity (ROE).

The first objective of this study is to assess the current status of corporate governance variables, namely board size, leverage, non-performing loans, and bank size, in relation to the financial performance of private commercial banks in Nepal. Previous studies have emphasized the role of board size in influencing firm performance, asserting that a larger board size can enhance the monitoring and decision-making processes, thereby improving the financial outcomes of banks (Ngatno et al., 2021). In contrast, smaller boards may lead to ineffective oversight and management, which can hinder financial performance. Therefore, understanding the current composition and dynamics of board size in Nepalese private commercial banks is essential for evaluating its impact on ROA and ROE.

Leverage, another key governance variable, has been widely studied in the context of its effect on financial performance. According to the pecking order theory, firms tend to prioritize internal financing, and when external financing is needed, debt is preferred over equity due to lower information costs (Myers & Majluf, 1984). This theory is particularly relevant for private commercial banks in Nepal, where leverage decisions significantly impact profitability. Excessive debt can strain a bank's resources, increasing financial risk and reducing profitability. Conversely, a well-managed capital structure with an optimal level of debt may enhance financial performance by enabling banks to fund expansion and operational activities without over-leveraging their financial position (Owusu & Garr,

2024). The study thus examines how leverage affects the financial performance of Nepalese private commercial banks.

Another critical variable influencing the performance of banks is the level of non-performing loans (NPLs), which directly affects the asset quality of financial institutions. The balanced scorecard theory suggests that financial institutions should maintain a balance between financial and non-financial performance metrics to ensure long-term success (Kaplan & Norton, 1992). High NPLs indicate poor asset quality and ineffective risk management, which can lead to financial instability and lower profitability. Several studies, including those by Bhusal et al. (2023), have highlighted the negative relationship between NPLs and the financial performance of banks. In the context of Nepalese commercial banks, the study seeks to assess how NPLs influence financial performance, particularly ROA and ROE.

The size of a bank also plays an important role in determining its financial performance. According to resource dependency theory, larger banks with more resources can leverage their size to gain a competitive advantage, attract more customers, and reduce operational costs (Pfeffer & Salancik, 1978). Larger banks may also benefit from economies of scale, enabling them to maintain higher profitability levels. Conversely, smaller banks may struggle to compete, especially in the face of rising competition and regulatory pressure. Understanding how bank size affects financial performance in Nepal's private banking sector is crucial, as it provides insights into how size-related factors impact ROA and ROE in the context of a developing economy.

Furthermore, the relationship between corporate governance and financial performance has been a focal point in the empirical literature. The agency theory suggests that effective corporate governance reduces agency costs and enhances the alignment between managers and shareholders, leading to improved financial outcomes (Jensen & Meckling, 1976). In Nepal, corporate governance practices are evolving, and while there is increasing awareness of the importance of governance structures, the impact of these practices on bank performance remains under-explored. Studies in other emerging economies, such as those by Antwi et al. (2021), have shown that good corporate governance practices lead to better financial performance by improving transparency, accountability, and risk management practices. This study aims to extend this understanding by examining the governance practices of private commercial banks in Nepal.

Finally, this research builds on the work of previous studies that have explored corporate governance in emerging markets, particularly in the banking sector. Ngatno et al. (2021) found that corporate governance mechanisms, such as the size of the board of directors, ownership structure, and management control, have a significant impact on the financial performance of banks in Indonesia. Similarly, studies in Ghana (Owusu & Garr, 2024) and Indonesia (Handajani et al., 2024) have shown that corporate governance variables such as board diversity, ownership structure, and leverage influence financial outcomes. By applying these theoretical and empirical insights to the context of Nepalese private commercial banks, this study seeks to identify the specific governance factors that affect ROA and ROE, contributing to the broader literature on corporate governance and financial performance in the banking sector.

1.2 Problem Statement

The banking sector is one of the most important components of the Nepalese economy, particularly private commercial banks that play a pivotal role in facilitating economic growth and providing essential financial services. However, recent financial reports suggest a concerning trend in the performance of these banks, with key performance indicators such as Return on Assets (ROA) and Return on Equity (ROE) showing declining figures in recent years (Ngatia & Mandere, 2024). These performance issues raise concerns about the effectiveness of corporate governance mechanisms in these institutions. In particular, while private commercial banks in Nepal have adopted various governance structures, there is a need for a deeper understanding of how these practices, including board size, leverage, non-performing loans (NPLs), and bank size, influence their financial outcomes. This research seeks to investigate the impact of these corporate governance factors on the financial performance of private commercial banks in Nepal, with a particular focus on the relationship between corporate governance practices and financial performance (ROA and ROE).

Board size is one of the most discussed aspects of corporate governance, often considered crucial for ensuring effective monitoring and decision-making in organizations (Owusu & Garr, 2024). In the context of private commercial banks in Nepal, the effect of board size on financial performance remains an underexplored area. Some studies, such as those by Antwi et al. (2021), have argued that larger boards may improve corporate governance by providing a wider range of expertise, but they can also lead to inefficiencies in decision-making. Conversely, smaller boards may offer more streamlined decision-making but may

lack the diversity of perspectives necessary for sound governance. The current study seeks to analyze the relationship between board size and the financial performance of Nepalese banks, examining whether larger boards have a positive or negative effect on key performance indicators like ROA and ROE.

Leverage, or the degree to which banks rely on debt financing, is another critical governance factor that can significantly affect financial performance. Bhusal et al. (2024) highlighted that while leverage can amplify returns during favorable economic conditions, excessive reliance on debt financing can increase financial risk and decrease profitability during periods of economic uncertainty. This study will assess how leverage impacts the financial performance of private commercial banks in Nepal, investigating whether an optimal leverage ratio contributes to better financial performance or whether excessive leverage undermines profitability. Given the challenges faced by banks in Nepal in managing debt and credit risk, understanding the impact of leverage on ROA and ROE is essential for improving financial outcomes.

Non-performing loans (NPLs) are a significant concern for banks, especially in developing economies like Nepal, where credit risk management practices may not be as robust as in more developed markets (Handajani et al., 2024). High levels of NPLs can directly affect profitability by increasing provisioning requirements and reducing capital adequacy. Previous studies, such as those by Ngatno et al. (2021), have shown that banks with high NPLs face challenges in maintaining profitability and stability. This study will explore the relationship between NPLs and financial performance in Nepalese private commercial banks, providing valuable insights into how NPLs influence ROA and ROE, and offering suggestions for improving credit risk management practices to reduce NPL levels and enhance profitability.

Bank size is another important factor that may influence the financial performance of banks. Larger banks often benefit from economies of scale, greater market share, and access to capital markets, which can lead to higher profitability and better financial performance (Owusu & Garr, 2024). However, larger banks may also face challenges related to complexity and regulatory scrutiny. In contrast, smaller banks may struggle with limited resources, but they can potentially offer more personalized services, which may help differentiate them in the market. This study will examine how bank size correlates with financial performance in Nepal’s private commercial banks, investigating whether larger banks perform better than smaller ones in terms of ROA and ROE.

The relationship between corporate governance and financial performance has been widely studied in various contexts, but studies focusing on Nepalese private commercial banks are limited. The current study aims to fill this gap by investigating how corporate governance practices such as board size, leverage, NPLs, and bank size impact financial performance in Nepal. By addressing these variables, the study will provide a deeper understanding of the governance-performance relationship in Nepal's banking sector, contributing valuable insights for policymakers, banking regulators, and financial institutions to enhance governance structures and improve financial outcomes (Ngatia & Mandere, 2024; Owusu & Garr, 2024).

In addition to corporate governance practices, the study will also consider the role of external factors such as the macroeconomic environment, regulatory changes, and industry-specific challenges in shaping the performance of commercial banks in Nepal. Previous studies have indicated that external factors such as economic stability, inflation rates, and regulatory policies significantly influence the financial performance of banks (Antwi et al., 2021). By incorporating these external factors into the analysis, the research will provide a more comprehensive view of the factors affecting the financial performance of private commercial banks in Nepal, ensuring that the findings are contextually relevant and applicable to the current banking environment in Nepal.

This study contributes to the growing body of literature on corporate governance and financial performance, focusing on private commercial banks in Nepal. By examining the relationship between board size, leverage, NPLs, and bank size with financial performance (ROA and ROE), this research aims to offer practical recommendations for improving corporate governance practices in Nepal’s banking sector. Ultimately, the findings will provide valuable insights for bank executives, regulators, and policymakers, helping them to design more effective governance frameworks and improve the financial health and stability of Nepal’s private commercial banks.

i) What is the current status of board size, leverage, non-performing loan, bank size and financial performance (ROA and ROE) of private commercial banks in Nepal?
ii) Is there relationship between board size, leverage, non-performing loan, bank size and financial performance (ROA and ROE) of private commercial banks in Nepal?
iii) What is the impact of board size, leverage, non-performing loan and bank size on financial performance (ROA and ROE) of private commercial banks in Nepal?

1.3 Objectives of the Study

The main objective of this study is to analyses the corporate governance and financial performance of price commercial banks in Nepal. The other objectives of this study are spelled out as:

i) To analyze the current status of board size, leverage, non-performing loan, bank size and financial performance (ROA and ROE) of private commercial banks in Nepal.

ii) To examine the relationship between board size, leverage, non-performing loan, bank size and financial performance (ROA and ROE) of private commercial banks in Nepal.

iii) To assess the impact of board size, leverage, non-performing loan and bank size on financial performance (ROA and ROE) of private commercial banks in Nepal.

1.4 Research Hypotheses

The study deals with the following alternative hypotheses inspired by theoretical framework.

H1: There is a significant impact of board size on return on assets.

H2: There is a significant impact of leverage on return on assets.

H3: There is a significant impact of non-performing loan on return on assets.

H4: There is a significant impact bank size on return on assets.

H5: There is a significant impact of board size on return on equity.

H6: There is a significant impact of leverage on return on equity.

H7: There is a significant impact of non-performing loan on return on equity.

H8: There is a significant impact bank size on return on equity.

1.4 Rationale of the Study

This study is motivated by the growing concerns regarding the performance of private commercial banks in Nepal, where several financial reports highlight a declining trend in key performance indicators like Return on Assets (ROA) and Return on Equity (ROE). While corporate governance is often seen as a crucial factor in improving organizational performance, the exact impact of governance practices such as board size, leverage, non-performing loans (NPLs), and bank size on financial performance in Nepalese commercial banks remains underexplored. By analyzing these variables, this study aims to provide valuable insights into the current state of corporate governance and its influence on the

financial health of Nepal's private commercial banks. The findings will directly address the first objective of the study, which is to assess the current status of these governance practices and their relationship with financial performance.

In addition, the study seeks to examine the relationship between board size, leverage, non-performing loans, and bank size on the financial performance of private commercial banks in Nepal. Previous studies have shown that effective corporate governance mechanisms can lead to better financial outcomes by enhancing decision-making, improving risk management, and strengthening internal controls. However, the specific dynamics of these relationships in the context of Nepal's private commercial banks remain unclear. By investigating these relationships, the study will contribute to a better understanding of how corporate governance practices directly affect financial performance, thus addressing the second objective of the study.

Moreover, this research will explore how corporate governance variables, such as board size, leverage, non-performing loans, and bank size, impact the financial performance indicators, ROA and ROE, in the context of Nepal's private commercial banks. By assessing these impacts, the study will provide empirical evidence on the role of governance in shaping bank profitability and performance. This is particularly important for policymakers, regulators, and bank management, as it will help them identify key areas where governance reforms can lead to improved financial outcomes. The findings will thus address the third objective of the study, which is to assess the impact of these governance factors on financial performance.

Overall, the rationale behind this study is to fill the existing gap in the literature on corporate governance and financial performance of private commercial banks in Nepal. The study's findings will not only contribute to academic knowledge but also provide practical implications for bank managers, regulators, and policymakers. By focusing on the relationship between corporate governance practices and financial performance, the study will offer actionable insights that can help improve governance frameworks, enhance bank performance, and contribute to the overall stability of Nepal's banking sector.

1.5 Limitations of the Study

The study has the following limitations;

i) The study is limited to private commercial banks.
ii) Eight commercial banks out of 20 have been selected randomly.

iii) The bank specific variables have only considered the macroeconomic factors have been ignored.

iv) The study only deals with corporate governance factors such as board size, leverage, non-performing loan and bank size whereas the financial performance of banks are measured by return on assets and equity.

CHAPTER II
LITERATURE REVIEW

2.1 Theoretical Review

The relationship between corporate governance and the financial performance of commercial banks is grounded in various theoretical frameworks that help in understanding the influence of governance structures on firm performance. This section reviews the key theories that provide a foundation for the study, specifically in the context of private commercial banks in Nepal.

Agency Theory

Agency theory, proposed by Jensen and Meckling (1976), is central to understanding corporate governance in financial institutions. According to this theory, there is an inherent conflict between the interests of the shareholders (principals) and the managers (agents). Managers may pursue personal interests that do not align with the shareholders' desire to maximize returns. The effectiveness of corporate governance mechanisms, such as board size, can mitigate these conflicts by providing oversight and monitoring. This study explores how board size, a key governance mechanism, can influence the financial performance of private commercial banks in Nepal. The agency theory suggests that a larger board may be more effective in monitoring managers and ensuring that their actions align with shareholder interests, thus positively impacting financial performance (Fama & Jensen, 1983).

Resource Dependency Theory

Resource Dependency Theory, proposed by Pfeffer and Salancik (1978), emphasizes the role of the board in providing critical resources that contribute to a firm’s success. The theory posits that boards of directors serve as a bridge between the organization and the external environment, providing access to resources such as capital, information, and expertise. In the context of private commercial banks in Nepal, the composition and size of the board may influence the bank’s ability to access crucial resources and manage risks, which in turn affects financial performance (Hillman & Dalziel, 2003). A well-resourced board can bring in expertise that helps the bank make strategic decisions that enhance profitability, thus affecting ROA and ROE.

Stewardship Theory

Stewardship theory, proposed by Davis, Schoorman, and Donaldson (1997), presents an alternative view to agency theory. It argues that managers, as stewards, are motivated to act in the best interests of the organization, seeking to maximize long-term value. In this view, the role of corporate governance is to support managers rather than monitor them. For private commercial banks in Nepal, the stewardship theory suggests that a strong and supportive board can help managers perform optimally, thus enhancing the bank's performance. This theory justifies the study's exploration of how board size and governance practices can lead to better decision-making, lower agency costs, and improved financial performance (Donaldson & Davis, 1991).

Pecking Order Theory

The Pecking Order Theory, developed by Myers and Majluf (1984), provides a framework for understanding corporate financing decisions. The theory suggests that firms prefer internal financing over external financing and that, when external financing is required, debt is preferred over equity due to lower information costs. In the context of private commercial banks in Nepal, leverage, a key variable in the study, can affect financial performance based on the firm's financing decisions. The pecking order theory predicts that banks with lower debt levels (i.e., lower leverage) may have higher financial performance because they avoid the costs associated with high debt. Conversely, excessive leverage may reduce financial performance due to the higher cost of debt servicing (Chowdhury & Zaman, 2018). This theory provides insight into how leverage impacts ROA and ROE in Nepalese private commercial banks.

Balanced Scorecard Theory

The Balanced Scorecard Theory, introduced by Kaplan and Norton (1992), suggests that financial performance should be assessed using both financial and non-financial indicators. This theory is particularly relevant in the context of corporate governance as it emphasizes the importance of aligning governance practices with broader strategic goals, including risk management and stakeholder value. The study's focus on non-performing loans (NPLs) is justified by the balanced scorecard approach, as NPLs represent a key indicator of operational efficiency and risk management within banks. According to this theory, effective corporate governance helps to maintain a balance between financial and non-financial performance metrics, which is crucial for sustaining long-term growth and

stability (Kaplan & Norton, 1996). For private commercial banks in Nepal, governance structures that effectively manage NPLs can contribute to improved financial performance, enhancing both ROA and ROE.

2.2 Empirical Review

Mohan and Chandramohan (2018) investigated the impact of corporate governance factors on the performance of Indian firms. Using a panel data regression model on 30 firms listed on the Bombay Stock Exchange, the study found that Corporate governance and board size negatively influenced firm performance, while board composition had no significant impact. The findings emphasized the importance of separating the roles of CEO and Chair to enhance performance. Moreover, financial leverage and asset turnover were observed to have a positive impact on firm performance. The study suggested that the effectiveness of corporate governance mechanisms might vary across industries and highlighted the need for further exploration of additional governance variables to develop a comprehensive understanding of their impact on performance.

Puri and Walsh (2018) explored the governance-performance nexus in the cooperative sector in Nepal, analyzing data from 400 respondents across 18 cooperatives. The study identified significant positive relationships between performance and factors such as professionalization and accountability. Transparency and participation were found to have positive but statistically insignificant effects, whereas legitimacy demonstrated a negative and insignificant relationship with performance. The findings underscored the critical role of good governance in ensuring cooperative sustainability, enhancing service delivery, and fostering economic and social transformation. Additionally, the study highlighted that female-led cooperatives exhibited greater transparency, and cooperatives in Province 6 outperformed those in Province 3 in governance dimensions like legitimacy, professionalization, and accountability. These results suggested that governance practices tailored to specific cultural and regional contexts could significantly improve organizational outcomes.

Sarpong-Danquah et al. (2018) investigated the impact of corporate governance on the performance of manufacturing firms listed on the Ghana Stock Exchange from 2009 to 2013. Using generalized least squares panel regression, the study revealed that board independence and gender diversity positively and significantly influenced firm performance, as measured by return on equity (ROE) and return on assets (ROA). However,

board size showed no significant relationship with performance. The study emphasized the need to include female board members and external directors to strengthen governance and improve firm performance. Additionally, the findings indicated that firm size and age significantly influenced performance. The results provided critical insights into the manufacturing sector, advocating for tailored governance practices to maximize firm performance.

Danoshana and Ravivathani (2019) analyzed the impact of corporate governance on the performance of financial institutions in Sri Lanka during the period 2008-2012. Corporate governance plays a significant role in determining firm performance, with various studies offering insights into this relationship across countries and industries. The study used return on equity (ROE) and return on assets (ROA) as performance measures and focused on board size, meeting frequency, and audit committee size as governance variables. The results revealed that board size and audit committee size positively influenced firm performance, whereas meeting frequency had a negative impact. The findings suggested that maintaining optimal board size and limiting meeting frequency could enhance governance effectiveness, thereby improving financial performance.

Sow and Tozo (2019) examined the relationship between corporate governance, firm performance, and earnings management among 2,098 listed firms in China from 2008 to 2014. Using Tobin's Q, ROA, and ROE as performance measures, the study highlighted that board independence positively impacted performance, while Corporate governance and larger boards had detrimental effects. Smaller boards were associated with better earnings quality, emphasizing the need for effective board composition. The study concluded that governance mechanisms such as board independence are critical for enhancing firm performance and earnings quality in the Chinese context.

Ciftci et al. (2019) investigated the relationship between corporate governance and firm performance in Turkish firms operating under a family capitalism model. The study found that concentrated ownership, particularly by families, positively influenced firm performance due to better risk management. Interestingly, larger boards and foreign ownership stakes also positively impacted performance, suggesting that diversity and external perspectives can enhance governance. However, cross-ownership was negatively associated with accounting performance, indicating potential inefficiencies in resource

allocation. The study underscored the importance of context-specific governance practices in emerging markets.

Yameen et al. (2019) investigated the effect of corporate governance practices on firm performance in the Indian tourism sector. The relationship between corporate governance and firm performance has been extensively studied in various contexts. Using a panel dataset of 39 hotels listed on the Bombay Stock Exchange over three years, the study employed accounting-based (ROA and ROCE) and market-based (Tobin's Q) performance measures. The findings indicated that board directors' size and audit committee size negatively impacted accounting-based performance, while their composition and diligence, along with foreign ownership, had positive effects. Conversely, board directors' size and foreign ownership positively affected market-based performance, while composition and diligence had a negative impact. The study concluded that corporate governance practices in the Indian hotel industry require significant improvement to meet global standards.

Bhagat and Bolton (2019) revisited the corporate governance-performance relationship, extending their analysis to the period between 2003 and 2016. Corporate governance has been a focal area of research, with its impact on firm performance varying across industries and countries. Their study highlighted that director stock ownership consistently and positively influenced future corporate performance across various sectors and financial institutions. This finding was robust across different specifications and estimation techniques, emphasizing its relevance to long-term investors and policymakers. Notably, the study observed that director stock ownership in the largest U.S. financial institutions significantly improved future performance while reducing risk, particularly during the 2008 financial crisis. These results underscore the importance of aligning the interests of directors with shareholders through stock ownership as a mechanism to enhance governance and performance.

Gulzar et al. (2020) explored corporate governance and its effect on firm performance in Indian textile firms listed on the Nifty 500 Index between 2014 and 2018. The study utilized panel data regression to analyze the impact of board size, board meetings, board independence, and Corporate governance on performance measures like Tobin's Q and ROA. The findings revealed mixed results, with board size positively impacting performance, while board meetings and Corporate governance were negatively associated with firm outcomes. The study highlighted a lack of robust governance policies in the

textile sector and recommended adopting effective governance practices to enhance performance.

Khatib and Nour (2021) examined this association during the COVID-19 pandemic, analyzing a sample of 188 non-financial firms in Malaysia between 2019 and 2020. The relationship between corporate governance and firm performance has been extensively studied, particularly in the context of different markets and varying economic conditions. Their findings revealed that while the pandemic influenced firm characteristics, including governance structure, liquidity, leverage, and performance, the differences between pre- and post-pandemic periods were not statistically significant. Notably, board size had a positive impact on firm performance, although this effect diminished during the crisis period. In contrast, board diversity played a more significant role during the pandemic, positively influencing firm performance, whereas prior to the pandemic, it had an inverse relationship. Additionally, board meetings and audit committee meetings negatively affected firm performance in both periods, highlighting potential inefficiencies in governance structures during uncertain times.

Muntahanah et al. (2021) explored the moderating role of corporate governance in the relationship between family ownership and firm performance in Indonesia. Analyzing data from 244 firms listed on the Indonesian Capital Market Directory over the 2008–2018 period, the study revealed that family ownership significantly reduced firm performance. However, corporate governance mechanisms such as managerial risk profiles and independent commissioners moderated this relationship positively, while the presence of a board of commissioners weakened it. The findings emphasized the importance of effective governance structures to enhance the performance of family-owned firms. Independent commissioners and a robust managerial risk profile were found to strengthen firm performance by mitigating the adverse effects of family ownership. The study suggested that firms should adopt governance mechanisms tailored to their ownership structures to optimize performance outcomes.

Harjito et al. (2021) examined the effects of corporate governance and corporate strategy on the performance of family-owned firms listed on the Indonesia Stock Exchange. The influence of corporate governance on firm performance has been extensively explored across various contexts. Using a sample of 70 family-owned or controlled firms from 2014 to 2018, the study employed multiple linear regression analysis. The findings revealed that

family ownership had a significant negative impact on firm performance, as measured by return on equity (ROE). Conversely, independent commissioners positively and significantly influenced firm performance, while diversification and directors' compensation strategies showed no significant impact on ROE. These results underscore the importance of independent commissioners in mitigating the adverse effects of family ownership and improving corporate performance.

Ying et al. (2021) investigated the relationship between firm performance, corporate social responsibility (CSR), and corporate governance in Ethiopian corporate enterprises. Corporate governance plays a critical role in enhancing firm performance and addressing organizational challenges, particularly in emerging economies. Using a sample of 21 companies in the Amhara region, the study employed structural equation modeling and multiple regression analysis to reveal that corporate governance serves as a mediator, strengthening the positive relationship between firm performance and CSR practices. The findings emphasized the significance of governance mechanisms in legitimizing CSR practices and enhancing organizational efficiency, suggesting that firms restructure and align their strategies with technological advancements to improve performance and social responsibility.

Nugroho (2021) explored the relationship between corporate governance and firm performance, focusing on macroeconomics, financial risk management, audit opinions, stock returns, investment decisions, and funding decisions. The study analyzed 147 manufacturing firms listed on the Indonesia Stock Exchange. The results revealed mixed findings. Good corporate governance (GCG) had no significant impact on going concern audit opinion (GCAO) or its moderation of stock returns' effect on GCAO. However, GCG significantly influenced financial risk management (FRM) and stock returns (SR), suggesting that improved corporate governance enhances risk management and returns. Additionally, investment and funding decisions significantly impacted FRM, GCAO, and SR. GCG moderated the relationships between FRM, investment decisions, funding decisions, and GCAO. These findings suggest that while corporate governance is effective in improving certain aspects of firm performance, its role in audit opinions remains limited.

Wu (2021) examined the effects of board independence on firm performance, focusing on Corporate governance and the proportion of independent directors as key indicators of governance. Using data from 830 firms in 43 countries, the study applied multi-level

modeling to assess the moderating effects of country governance, measured by regulatory quality and rule of law. The findings revealed that Corporate governance negatively affected firm performance, consistent with agency theory, while a higher proportion of independent directors positively influenced performance. However, the positive effect of board independence was negatively moderated by regulatory quality and rule of law, indicating that strong country governance reduced the reliance on corporate governance to drive performance. Conversely, poor country governance amplified the importance of corporate governance in enhancing performance. This research highlights the need for firms to adapt governance mechanisms to their country's regulatory context, particularly avoiding Corporate governance and maintaining a higher proportion of independent directors.

Ngatno et al. (2021) analyzed the moderating role of corporate governance (CG) mechanisms in the relationship between capital structure and firm performance using financial data from 506 rural banks in Indonesia. Results indicated that short-term debt positively impacted financial performance, while long-term debt had an insignificant effect on return on assets (ROA) and return on equity (ROE). This supports the pecking order theory, suggesting an inverse relationship between firm profitability and leverage. Among corporate governance variables, only the size of the board of commissioners significantly moderated the relationship between capital structure and performance, emphasizing the role of commissioners in controlling managerial decisions to enhance firm value. Conversely, board size and ownership concentration did not exhibit moderating effects. Findings suggest that commissioners improve management oversight, reducing opportunistic behaviors and enabling optimal funding decisions. However, the study called for further exploration of additional CG variables, such as ownership structures and antitakeover mechanisms, to understand CG's broader influence on capital structure decisions across different economic and institutional contexts.

Antwi et al. (2021) reviewed empirical literature on corporate governance and firm performance, focusing on studies conducted in Ghana. The review identified trends in CG research from 2006 to 2020, highlighting the dominance of board composition and ownership structure as key variables studied in Ghana's context. The study emphasized that effective corporate governance enhances organizational productivity and overall performance. Notably, board composition attributes, such as board size, Corporate governance, and independent directors, were found to positively influence firm

performance. The study also recognized the role of the Ghana Securities and Exchange Commission's 2010 Code of Best Practices in shaping governance frameworks for listed firms. The authors advocated for future research on emerging CG variables such as gender diversity, audit committees, and compensation practices to align Ghana's governance research with global trends.

Mititean (2022) investigated the relationship between corporate governance characteristics and financial performance in Romanian companies listed on the Bucharest Stock Exchange. The study analyzed a sample of 66 companies categorized as Premium and Standard during the period 2016–2020, using return on assets (ROA) and return on equity (ROE) as performance metrics. The findings demonstrated that board size, board gender diversity, and board meetings positively impacted firm performance measured by both ROA and ROE. Corporate governance had a positive and significant association with ROA, but a negative and insignificant relationship with ROE. However, board independence exhibited a negative and insignificant relationship with both performance measures. The study highlights the varying effects of governance mechanisms and provides insights into managing corporate governance practices in emerging European markets.

Le and Nguyen (2022) explored the relationship between corporate governance and firm value in Vietnam's small and medium-sized enterprises (SMEs). The study incorporated corporate social responsibility and organizational identification as mediating variables, employing covariance-based structural equation modeling. Findings indicated that corporate governance positively impacts firm value, mediated by CSR and organizational identification. The study highlights how governance mechanisms can address stakeholder conflicts and balance economic, social, and environmental objectives in SMEs. The results provide actionable insights for managers and policymakers on sustainable governance practices in emerging economies.

Huynh, Hoque, Susanto, Watto, and Ashraf (2022) examined the mediating role of financial leverage in the relationship between corporate governance and firm performance in Pakistan's non-financial sector. Analyzing data from 150 firms listed on the Pakistan Stock Exchange from 2011 to 2021, the study found that board size, independence, audit committee size, and female directorship positively influenced firm performance. Financial leverage was a partial mediator for board size and independence, while it fully mediated the relationship between audit committee size, female directorship, and firm performance.

The findings suggest that corporate governance mechanisms not only enhance firm performance but also manage financial distress by optimizing leverage.

Jesuka and Peixoto (2022) examined the relationship between corporate governance and firm performance in Latin America. Corporate governance has been widely studied as a determinant of firm performance across various contexts. Using multilevel regression with fixed and random coefficients on data from 823 companies spanning 2004–2018, the study incorporated governance metrics such as board size, CEO-chairman duality, and audit committee expertise. Findings revealed that better governance mechanisms and favorable sovereign ratings positively impact firm performance, with governance and sovereign ratings acting as substitute mechanisms for protecting investors. The study provides new insights into the interplay between governance and sovereign ratings, particularly within the Latin American context.

Nizam et al. (2022) investigated the impact of corporate governance on firm performance in Pakistan's emerging markets, using Tobin's Q and return on assets (ROA) as proxies for firm performance. Based on panel data collected from 31 PSX-listed manufacturing firms from 2014–2019, the study found a significant positive relationship between corporate governance and firm performance. Specifically, the Corporate Governance Index (CGI) was positively associated with Tobin's Q, while ownership concentration (OC) and family board membership (FBM) emerged as key contributors to firm performance. However, board size (BS) exhibited an inverse relationship with ROA, suggesting potential trade-offs in corporate governance practices.

Ali et al. (2022) investigated the relationship between corporate governance tools and firm performance among 75 companies listed on the Pakistan Stock Exchange over the period 2010–2019. Using board size, board independence, Corporate governance, board education, and the firm's years of establishment as independent variables, and return on assets (ROA) as the dependent variable, the study highlighted significant relationships for board size, board independence, and board education. Board independence and board education were positively associated with firm performance, emphasizing that highly educated and independent boards enhance organizational success. However, Corporate governance and firm age exhibited insignificant effects. The findings emphasize that corporate governance procedures, particularly board-related characteristics, are crucial for improving firm performance in Pakistan's corporate landscape.

Akram and Abrar Ul Haq (2022) examined the direct and indirect effects of corporate governance on firm performance using innovation as a mediating factor. Data from 210 non-financial firms listed on the Pakistan Stock Exchange from 2010–2019 were analyzed using advanced statistical techniques, including Driscoll Kraay's standard errors and bootstrapping methods. While the direct impact of most corporate governance variables on firm performance was positive, some variables, such as independent directors and family ownership, demonstrated mixed effects. The mediating role of innovation was significant, transforming some negative direct relationships (e.g., independent directors and gender diversity) into positive ones, showcasing the importance of innovation in leveraging the benefits of governance structures. The study's integration of agency and resource-dependence theories provided a more holistic understanding of corporate governance's role in firm performance.

Khan and Mahmood (2023) explored corporate governance's impact on firm performance in non-financial firms listed on the Pakistan Stock Exchange over 2013–2022. Using indicators such as board size, Corporate governance, ownership structure, and audit committee independence, the study operationalized performance using return on assets (RA) and return on equity (RE). Results indicated that governance elements like independent audit committees, moderate leverage, and firm growth positively influenced RA, while ownership structure and firm size were more significant predictors of RE. The findings highlighted the nuanced role of governance mechanisms in balancing organizational and shareholder interests.

Ledi and Ameza–Xemalordzo (2023) analyzed the synergy between corporate governance and corporate social responsibility (CSR) on firm performance in Ghanaian manufacturing firms. Based on a sample of 328 executives, the study utilized AMOS and Process Macro to reveal that corporate governance practices enhance CSR, corporate image, and overall firm performance. Moreover, corporate image served as a mediating factor in the governance-CSR-performance nexus. These findings contribute to the understanding of governance-CSR dynamics within emerging economies and underscore the importance of a synergistic approach to governance and social responsibility.

Dawood et al. (2023) assessed the effect of corporate governance on firm performance in Pakistan's commercial banking sector. Reviewing studies from 1980 to 2021, the authors identified several governance factors, including board size, CEO tenure, audit committee

independence, and foreign ownership, as positively influencing bank performance. The study underscored the importance of sound corporate governance practices, such as effective board oversight and compliance with regulatory standards, in improving profitability, enhancing shareholder value, and supporting economic growth. Recommendations included maintaining an independent board and fostering compliance with ethical and environmental standards to ensure sustainable development in the banking sector.

Khanal (2023) explored the relationship between corporate governance structures and the financial performance of Nepalese commercial banks. Using primary data collected through questionnaires and performance indicators such as return on equity (ROE) and return on assets (ROA), the study identified board independence, Corporate governance, and audit committee independence as key governance mechanisms positively influencing bank performance. The findings suggested that improved corporate governance practices could enhance the stability of individual banks and the broader banking system. The study recommended fair governance practices to boost market confidence, attract capital, and promote transparency. It emphasized the importance of governance mechanisms in fostering financial stability and performance in the banking sector.

Ngatia and Mandere (2024) examined the influence of corporate governance practices on the performance of commercial banks in Nairobi City County, Kenya, particularly focusing on Tier-3 banks. The study, spanning from 2018 to 2022, found that corporate governance practices related to digitization, innovation, board diversity, and organizational structure significantly impacted bank performance. Among these, digitization and board diversity showed strong statistical significance in improving financial performance, while innovation had a marginally significant effect, and organizational structure exhibited borderline significance. These findings suggest that corporate governance practices are vital in improving the performance of commercial banks in Kenya, with particular emphasis on leveraging technology and promoting board diversity to enhance bank profitability. The study also highlights the declining performance of Tier-3 banks, underscoring the need for effective governance mechanisms to counteract negative financial trends.

Owusu and Garr (2024) explored the relationship between corporate governance and financial performance of listed commercial banks in Ghana, focusing on factors such as board size, ownership structure, board independence, and audit committee effectiveness.

Their analysis of panel data from 2008 to 2020 revealed that board size, independence, and gender diversity positively influenced Return on Assets (ROA), while ownership structure, capital adequacy ratio, and audit committee effectiveness had a positive effect on Return on Equity (ROE). Interestingly, they found a significant negative correlation between ROE and board gender diversity, suggesting that increased female representation on boards might have unintended negative effects on financial performance. The study also highlighted the negative relationship between high debt levels and profitability, indicating the importance of maintaining a balanced capital structure for improved financial outcomes. The findings contribute to the understanding of the dynamics of corporate governance in enhancing the financial performance of banks in Ghana.

Handajani, Akram, and Sokarina (2024) investigated the impact of corporate governance practices and bank-specific factors on the financial performance of Indonesian commercial banks. Using data from 35 public banks listed on the Indonesia Stock Exchange from 2017 to 2021, the study employed structural equation modeling to assess the influence of corporate governance self-assessment ratings and bank-specific factors, such as ownership, size, and diversification. The results showed that better corporate governance self-assessment ratings significantly improved financial performance. Additionally, bank-specific factors such as ownership concentration, bank size, and diversification positively contributed to financial performance. These findings emphasize the importance of both corporate governance quality and internal bank factors in achieving superior financial performance, providing valuable insights for the Indonesian Financial Services Authority (OJK) in promoting effective governance practices in the banking sector.

Bhusal et al. (2024) explored the impact of corporate governance on the performance of Nepalese commercial banks, using Return on Assets (ROA) and Return on Equity (ROE) as performance indicators. The study utilized board size, firm size, and ownership structure as the primary corporate governance variables, while also including control variables such as non-performing loans and leverage. The data were collected from the Banking and Financial Statistics published by Nepal Rastra Bank and annual reports of individual banks. Despite the theoretical expectation that corporate governance would positively influence bank performance, the findings revealed an insignificant relationship between corporate governance and both ROA and ROE. However, leverage, a control variable in the study, showed a positive relationship with the performance of commercial banks. This suggests that, while corporate governance in Nepalese commercial banks may not directly affect

financial performance, leverage may play a more significant role in enhancing performance. The study indicates that further exploration is needed to understand the nuanced dynamics of corporate governance and its impact on the performance of financial institutions in Nepal.

2.3 Research Gap

Although there is a substantial body of literature on the relationship between corporate governance and financial performance, much of the research has been conducted in developed economies, with limited studies focusing on emerging markets such as Nepal. For instance, studies in Ghana and Indonesia have explored the effects of corporate governance on bank performance (Owusu & Garr, 2024; Handajani et al., 2024), but there is a lack of empirical evidence from Nepal, particularly concerning the private commercial banking sector. Moreover, while studies have investigated individual governance variables such as board size, leverage, and non-performing loans (Bhusal et al., 2024; Ngatia & Mandere, 2024), few have considered their combined impact in the Nepalese context. This gap is significant because governance structures, practices, and financial outcomes may vary based on the local economic, regulatory, and cultural environment, suggesting that findings from other countries may not directly apply to Nepal.

Furthermore, while some studies have assessed corporate governance in Nepalese banks (Bhusal et al., 2024), these studies have often overlooked specific governance elements such as the board's composition or gender diversity, and their relation to financial performance. Research on the impact of non-performing loans (NPLs) and leverage on the financial performance of Nepalese commercial banks is also underdeveloped. As a result, there is insufficient understanding of how these factors interact and influence key performance indicators like ROA and ROE in Nepal's private sector banking context. This study aims to bridge these gaps by providing an in-depth analysis of how board size, leverage, NPLs, and bank size affect the financial performance of private commercial banks in Nepal, thus offering valuable insights for both academics and practitioners in the field.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

The study adopts a descriptive and causal-comparative research design to examine the impact of corporate governance on the financial performance of private commercial banks in Nepal. The descriptive design helps in capturing the current state of corporate governance practices, including board size, leverage, non-performing loans, and bank size, as these elements are directly related to the financial performance indicators, specifically Return on Assets (ROA) and Return on Equity (ROE). This design supports the objective of analyzing the existing conditions and practices within the selected banks. Additionally, the causal-comparative design is used to investigate potential cause-and-effect relationships between the governance variables and financial performance. By using this design, the study aims to explore whether corporate governance mechanisms directly influence the financial outcomes of private commercial banks in Nepal, thus aligning with the primary objective of the research.

3.2 Population and Sample

The population for this study consists of 20 commercial banks in Nepal, categorized into government-owned, joint venture, and private commercial banks. Out of these, 12 banks are privately owned, which are the focus of this study. A purposive sampling technique is employed to select eight private commercial banks. The sample banks are; Nabil Bank Limited, NIMB Bank Limited, Kamari Bank Limited, Global IME Bank Limited, Prabhu Bank Limited, Prime Commercial Bank Limited, NIC Asia Bank Limited and Sunrise Bank Limited.

This selection is intentional, as the study specifically targets private banks in Nepal to investigate the relationship between corporate governance practices and their financial performance. The purposive sampling method ensures that the research includes banks that are most relevant to the objectives, as the study seeks to understand how governance variables in the private sector impact financial performance. By narrowing the sample to eight private commercial banks, the study is able to provide focused insights into the corporate governance practices within the private banking sector in Nepal.

3.3 Nature and Sources of Data

This research is secondary in nature, relying on existing data published in the annual and financial reports of the selected private commercial banks. The secondary data allows for a detailed exploration of the corporate governance practices and financial performance of these banks. These reports contain essential information such as board composition, leverage, non-performing loans, and bank size, as well as key financial performance metrics like ROA and ROE. The use of secondary data ensures that the analysis reflects the actual performance and governance practices of the banks under study, offering a reliable basis for the investigation. In addition to the financial reports, the study also reviews relevant literature from academic articles, books, and journals, which helps contextualize the findings and align them with existing research on corporate governance and bank performance.

3.4 Data Collection Procedure

Data collection is primarily based on the annual reports published by the eight selected private commercial banks. These reports provide detailed, up-to-date information on the key variables under study, such as board size, leverage, non-performing loans, and bank size, as well as the financial performance indicators (ROA and ROE). This data collection method ensures that the study uses actual performance data from the banks, which is critical for understanding the current state of corporate governance practices in the private sector. In addition to the data obtained from the banks' reports, the study gathers insights from secondary sources, including articles, books, and journals, which offer valuable perspectives on the relationship between corporate governance and financial performance. This combination of primary data from the banks' reports and secondary data from scholarly sources strengthens the reliability and depth of the research.

3.5 Instruments of Data

The study uses the Statistical Package for the Social Sciences (SPSS) software, version 25.0, as the primary tool for data analysis. SPSS is widely used in social sciences research due to its powerful capabilities in managing and analyzing large datasets. The software will be employed to perform a variety of statistical techniques, including descriptive statistics, correlation analysis, and regression analysis. These techniques allow the researcher to explore the relationships between corporate governance variables (board size, leverage, non-performing loans, and bank size) and financial performance (ROA and ROE). The use of SPSS ensures the accuracy and reliability of the analysis, making it suitable for drawing

meaningful conclusions from the data. SPSS also facilitates data visualization, helping to present the findings in an easily interpretable format.

3.6 Method of Analysis

The data analysis in this study employs descriptive statistics, correlation analysis, and regression analysis to examine the relationship between corporate governance practices and the financial performance of private commercial banks in Nepal. Each of these analytical methods serves a distinct purpose in addressing the research objectives and contributes to a comprehensive understanding of the variables under study.

Descriptive Statistics

Descriptive statistics are used to summarize and provide an overview of the key variables in this study. This analysis includes measures such as the mean, standard deviation (SD), minimum (min), and maximum (max) values for the key governance and financial performance variables, including board size, leverage, non-performing loans (NPLs), bank size, and financial performance (ROA and ROE). These statistical measures will help describe the central tendency (mean) and the dispersion (standard deviation) of each variable, as well as the range between the lowest and highest values (min and max). By examining these statistics, the study offers insights into the current state of corporate governance practices within private commercial banks in Nepal, addressing the first objective of the research. This analysis helps identify the general distribution of variables, including the average size of boards across banks, the typical leverage ratio, the level of non-performing loans, and the financial performance of banks based on ROA and ROE. Additionally, the standard deviation provides information about the variation within the dataset, while the minimum and maximum values highlight the range of values for each variable. These results help provide a clearer understanding of how diverse the governance practices and performance outcomes are among the banks studied.

Correlation Analysis

Following the descriptive analysis, correlation analysis determines the strength, direction, and significance of the relationships between the corporate governance variables (board size, leverage, non-performing loans, and bank size) and financial performance indicators (ROA and ROE). This technique explores the degree to which changes in corporate governance factors are associated with variations in the financial performance of the banks. By calculating correlation coefficients, the study identifies whether a positive or negative

relationship exists between governance practices and performance outcomes, and to what extent these relationships are statistically significant. The second objective of the study examining the relationships between the selected governance variables and financial performance is directly addressed through this analysis. For instance, the study investigates whether larger boards, higher leverage, or a greater volume of non-performing loans correlate with improved or diminished financial performance. Understanding these relationships establishes a foundation for the subsequent analysis of causal effects in the regression analysis.

Regression Analysis

To deepen the analysis and assess the impact of corporate governance practices on the financial performance of private commercial banks in Nepal, multiple regression analysis is used. This method allows for a more detailed examination of how various corporate governance variables influence the performance measures ROA and ROE, while controlling for other factors. In the regression model, board size, leverage, non-performing loans, and bank size are treated as the independent variables, while ROA and ROE serve as the dependent variables. The regression equation is specified as follows:

This regression analysis directly addresses the third objective of the study, which is to assess the impact of corporate governance practices on financial performance. The coefficients obtained from the regression reveal the extent to which each governance variable influences ROA and ROE. For instance, the analysis determines whether an increase in board size leads to improved financial performance or whether higher leverage or a greater proportion of non-performing loans results in poorer financial outcomes. By analyzing the regression results, the study aims to establish the causal relationships between corporate governance practices and the financial performance of private commercial banks in Nepal.

SFP=ß + ß1BZ+ ß2LEV+ß3NPLs +ß4BS +e

Where,

ROA = Return on Assets

ROE = Return on Equity

ß1- ß5 = Regression Coefficient for Variables

BZ = Board Size

LEV = Leverage

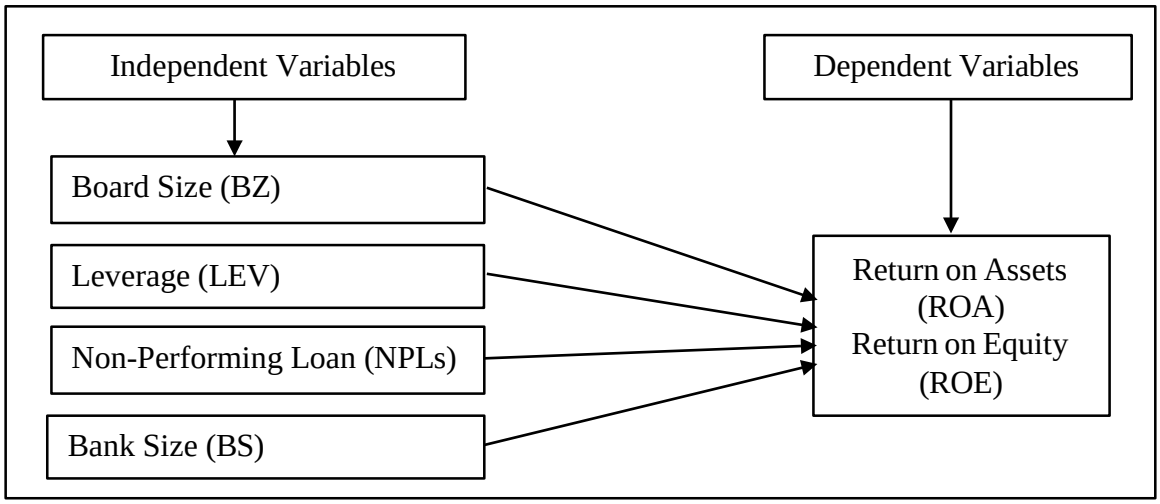
NPLs = Non-Performing Loan

BS = Bank Size

e = error term

The data analysis process incorporates descriptive statistics, correlation analysis, and regression analysis. Descriptive statistics provide an initial summary of the data, highlighting key metrics such as mean, standard deviation, and min/max values. Correlation analysis explores the relationships between governance variables and performance indicators, while regression analysis assesses the impact of governance practices on financial performance. These methods combined offer a robust framework for analyzing the financial health of private commercial banks in Nepal and the role of corporate governance in shaping their performance outcomes.

3.7 Research Framework and Definition of Variables



Source: Bhusal et al. (2024)

Figure 1. Research Framework

Board Size

Board size refers to the total number of members on a company's board of directors. It is considered a key element of corporate governance, as the board is responsible for overseeing the strategic direction and ensuring the company's accountability. A larger board can potentially bring diverse perspectives, expertise, and enhanced decision-making (Ngatia & Mandere, 2024). However, some studies suggest that a larger board may lead to inefficiencies due to coordination problems or conflicts among members (Bhusal et al., 2024). Therefore, the relationship between board size and firm performance is mixed, and the specific context of private commercial banks in Nepal remains underexplored.

Leverage

Leverage refers to the use of borrowed funds (debt) to finance a firm's operations and investments. In the context of commercial banks, leverage is typically measured as the ratio of a bank's total debt (or credit) to its total deposits, also known as the credit/deposit ratio (Ngatia & Mandere, 2024). This ratio reflects the proportion of funds a bank is borrowing relative to its deposits and indicates how much risk the bank is taking on through debt financing. Leverage is a critical variable in corporate governance as it influences a bank's financial risk, profitability, and solvency (Owusu & Garr, 2024). A moderate level of leverage can amplify returns by utilizing debt to increase the capacity for investment, while excessive debt can heighten the risk of financial distress, especially in the highly regulated banking sector (Handajani et al., 2024). Therefore, understanding the relationship between leverage and financial performance, particularly in terms of Return on Assets (ROA) and Return on Equity (ROE), is essential for evaluating the corporate governance mechanisms that guide these leverage decisions in private commercial banks.

Non-Performing Loans (NPLs)

Non-performing loans refer to loans that are in default or close to being in default, usually when the borrower has not made the required payments for a specified period. NPLs are a significant concern for commercial banks as they directly impact the quality of a bank's assets and profitability (Ngatia & Mandere, 2024). High levels of NPLs indicate poor loan management or weak credit control practices, which may lead to reduced profitability and increased financial risk. In Nepalese commercial banks, where loan recovery practices may vary, understanding the impact of NPLs on financial performance is critical for assessing the effectiveness of corporate governance mechanisms (Bhusal et al., 2024).

Bank Size

Bank size is a measure of the total assets of a bank. Larger banks may benefit from economies of scale, better access to capital, and more diversified revenue streams, potentially leading to higher financial performance (Owusu & Garr, 2024). On the other hand, large banks may also face more complex governance challenges and regulatory scrutiny. In the context of Nepal, where the banking sector is developing, understanding how bank size influences performance, particularly in private commercial banks, is crucial for evaluating the role of corporate governance in ensuring sustainable growth (Handajani et al., 2024).

Return on Assets (ROA)

Return on Assets (ROA) is a financial performance metric that measures a company's ability to generate profit relative to its total assets. It is calculated by dividing the net income of the company by its total assets, often expressed as a percentage. ROA provides an indication of how efficiently a company is using its assets to produce earnings. A higher ROA suggests that the company is more effective in utilizing its assets, while a lower ROA may indicate inefficiency in asset management (Ngatia & Mandere, 2024). For commercial banks, ROA is an important indicator of profitability, reflecting how well the bank is generating profit from its available resources, such as loans, deposits, and other assets (Owusu & Garr, 2024). This measure is often used in studies examining the impact of corporate governance practices, such as board structure and leverage, on the bank's operational efficiency and financial performance.

Return on Equity (ROE)

Return on Equity (ROE) is another key financial performance metric that measures a company's ability to generate profit from its shareholders' equity. It is calculated by dividing net income by shareholders' equity, which is the difference between a company's total assets and its liabilities. ROE is a critical measure of a firm's profitability and financial performance, specifically from the perspective of the equity holders. A higher ROE indicates that the bank is using its equity base more effectively to generate profits, while a lower ROE suggests that the bank might not be optimizing its capital structure (Handajani et al., 2024). For private commercial banks, ROE is a crucial performance indicator, as it reflects the ability of the management to provide returns to shareholders, often considered when evaluating the effectiveness of corporate governance practices, such as board diversity and organizational structure (Owusu & Garr, 2024). This metric is closely linked to decisions regarding leverage and asset management, which can be influenced by governance mechanisms.

CHAPTER IV
RESULTS AND DISCUSSION

4.1 Descriptive Analysis

Descriptive analysis is a fundamental statistical technique used to summarize and describe the characteristics of a dataset. In this study, descriptive analysis was employed to explore the central tendencies, dispersion, and range of key variables, including board size, financial leverage, non-performing loans (NPLs), bank size, and financial performance indicators such as Return on Assets (ROA) and Return on Equity (ROE). By presenting measures such as mean, standard deviation, minimum, and maximum values, the analysis provides an overview of the current state of corporate governance practices and financial performance among private commercial banks in Nepal. This approach helps identify patterns and variations within the data, offering a foundational understanding of the variables under investigation and setting the stage for further statistical analysis.

Table 1

Status of Board Size (Total Staffs)

Year/Banks	NABIL	NIMB	KBL	GBIME	PBL	PCBL	NIC	Sunrise
2013/14	724	942	362	2961	580	362	595	449
2014/15	706	969	392	3059	1083	390	730	444
2015/16	792	1005	385	1696	1334	571	1101	691
2016/17	848	1187	755	1638	1444	691	1755	956
2017/18	1005	1355	796	1348	1677	691	2291	1159
2018/19	1080	1408	1043	1107	2061	725	3472	1353
2019/20	1128	1437	1781	1117	2331	1469	2908	1484
2020/21	1271	1506	1881	1098	2424	1548	3792	1517
2021/22	2130	1521	1845	838	2423	1600	4385	1547
2022/23	2235	3217	1845	3677	3439	1639	3943	1543
Mean	1192	1455	1109	1854	1880	969	2497	1114
SD	554	658	663	1002	824	528	1404	450
CV	46	45	60	54	44	55	56	40

Note: Annual Report of Sample Banks form 2013/14-2022/23

The table presents the status of board size, measured by the total staff across eight banks, highlighting the mean, standard deviation (SD), and coefficient of variation (CV) for each. Among the banks, NIC Bank exhibits the highest mean staff size (2497), indicating its larger scale of operations compared to the others, followed by PBL (1880) and GBIME (1854). In contrast, PCBL has the lowest mean staff size (969), suggesting smaller operational scale. Standard deviation values, which indicate variability in staff size, are highest for NIC (1404) and lowest for Sunrise Bank (450), reflecting significant differences in staff size distribution across these banks. The CV, a standardized measure of variability, ranges from 40% for Sunrise (indicating the most consistent staff size relative to its mean) to 60% for KBL, which has the highest relative variability. These findings imply significant differences in the operational structures of the banks. NIC's high mean and variability suggest it operates on a much larger and potentially more complex scale, while Sunrise's low mean and variability indicate smaller, more stable staff structures. Higher CVs, such as those for KBL (60%) and NIC (56%), might reflect challenges in maintaining consistent staffing levels, potentially affecting operational efficiency. Conversely, lower CVs, such as Sunrise's 40%, indicate stable staffing, which may facilitate smoother management..

Table 2

Status of Leverage (Credit Deposit Ratio)

Year/Banks	NABIL	NIMB	KBL	GBIME	PBL	PCBL	NIC	Sunrise
2013/14	74.55	71.90	82.70	73.64	69.23	81.76	82.93	81.84
2014/15	64.43	72.80	81.00	74.41	70.43	81.63	81.03	83.92
2015/16	70.49	76.80	79.34	72.96	79.11	85.00	85.62	86.82
2016/17	65.38	77.60	87.60	71.24	76.19	89.12	83.70	87.28
2017/18	82.66	74.70	89.55	75.35	81.04	87.53	86.30	86.65
2018/19	81.96	71.97	90.11	78.69	87.94	89.15	84.55	93.81
2019/20	79.72	72.93	92.19	73.18	78.26	88.97	85.75	88.51
2020/21	89.84	75.12	90.99	72.65	83.95	89.23	87.58	93.82
2021/22	92.49	85.10	86.58	89.21	81.38	93.65	89.85	76.70
2022/23	84.19	85.05	91.49	85.21	76.62	91.32	86.17	78.65
Mean	78.57	76.40	87.16	76.65	78.42	87.74	85.35	85.80
SD	9.65	4.96	4.63	5.98	5.71	3.89	2.47	5.71
CV	12.28	6.49	5.31	7.80	7.29	4.43	2.89	6.65

Note: Annual Report of Sample Banks form 2013/14-2022/23

The table provides an analysis of leverage, measured by the credit-deposit ratio (CDR), across eight banks, highlighting the mean, standard deviation (SD), and coefficient of variation (CV). Among the banks, PCBL has the highest mean CDR (87.74%), closely followed by KBL (87.16%), Sunrise Bank (85.80%), and NIC Bank (85.35%), indicating these banks are heavily utilizing their deposits for credit issuance. Conversely, NIMB and GBIME exhibit the lowest mean CDR values, 76.40% and 76.65%, respectively, suggesting relatively conservative credit deployment. The SD values indicate the degree of variation in CDR over time, with NABIL showing the highest variability (SD = 9.65), while NIC demonstrates the least variability (SD = 2.47). The CV values further standardize this variability, revealing that NIC (CV = 2.89%) and PCBL (CV = 4.43%) maintain the most stable leverage ratios, while NABIL (CV = 12.28%) has the least stability.

These findings indicate distinct credit management strategies among the banks. High mean CDR values in PCBL, KBL, and Sunrise suggest aggressive credit strategies, which could amplify profitability during favorable market conditions but also expose these banks to higher risks in periods of economic uncertainty. The low variability in NIC and PCBL implies consistent credit policies, which may contribute to stable financial performance. In contrast, the higher variability in NABIL suggests fluctuations in credit management, potentially reflecting inconsistent strategies or varying market conditions. These differences in leverage management highlight the need for tailored risk management approaches to align credit strategies with overall financial stability.

Table 3

Status of Non-Performing Loan Ratio

Year/Banks	NABIL	NIMB	KBL	GBIME	PBL	PCBL	NIC	Sunrise
2013/14	2.13	1.77	4.03	2.55	24.29	2.43	2.33	4.94
2014/15	2.23	1.25	2.49	2.23	7.33	1.83	2.07	2.90
2015/16	1.82	0.68	1.15	1.89	8.83	1.23	0.76	1.22
2016/17	1.14	0.83	1.86	1.60	4.55	0.88	0.36	1.37
2017/18	0.55	1.36	1.05	0.77	3.98	0.85	0.06	1.24
2018/19	0.74	2.78	1.01	0.55	3.76	1.00	0.46	1.06
2019/20	0.98	2.91	1.39	1.74	3.15	1.48	0.75	1.86
2020/21	0.84	2.46	0.96	1.41	1.68	0.99	0.50	1.39
2021/22	1.63	1.49	1.11	1.28	1.86	1.77	0.53	1.30
2022/23	3.39	4.54	2.75	3.15	3.76	4.85	0.88	3.45
Mean	1.55	2.01	1.78	1.72	6.32	1.73	0.87	2.07
SD	0.88	1.18	1.02	0.79	6.70	1.21	0.74	1.28
CV	56.74	58.71	57.14	45.94	105.95	69.77	85.11	61.97

Note: Annual Report of Sample Banks form 2013/14-2022/23

The table presents the status of the Non-Performing Loan Ratio (NPLR) across eight banks, with mean, standard deviation (SD), and coefficient of variation (CV) values. PBL exhibits the highest mean NPLR (6.32%), suggesting significant challenges in managing loan quality, while NIC demonstrates the lowest mean NPLR (0.87%), indicating exceptional credit performance and risk management. The other banks maintain mean NPLR values between 1.55% (NABIL) and 2.07% (Sunrise), reflecting moderate loan quality. In terms of variability, PBL shows the highest SD (6.70), indicating extreme fluctuations in its non-performing loans, while NIC displays the lowest SD (0.74), signifying consistent loan performance over time.

The CV values further highlight the differences in NPLR stability, with PBL showing the highest CV (105.95%), revealing significant inconsistency and potential inefficiencies in credit risk management. NIC has a relatively high CV (85.11%), despite its low mean NPLR, indicating occasional variability even within its low-risk portfolio. Meanwhile, GBIME shows the lowest CV (45.94%), suggesting consistent loan quality compared to the other banks. These findings underscore varying levels of credit risk across the banking sector. PBL's high NPLR and variability may signal the need for improved credit evaluation and recovery processes to mitigate risks. In contrast, NIC and GBIME demonstrate stronger risk management practices, which could enhance their long-term financial stability and market reputation.

Table 4

Status of Bank Size (Total Assets in Rs. Billion)

Year/Banks	NABIL	NIMB	KBL	GBIME	PBL	PCBL	NIC	Sunrise
2013/14	2.22	0.08	0.04	1.50	0.02	0.04	1.31	0.03
2014/15	3.31	0.10	0.04	1.42	0.05	0.05	1.36	0.04
2015/16	2.64	0.13	0.05	1.51	0.10	0.05	2.42	0.06
2016/17	2.00	0.15	0.07	1.47	0.09	0.08	1.82	0.07
2017/18	1.47	0.18	0.09	1.62	0.12	0.09	2.62	0.08
2018/19	2.08	0.19	0.11	1.59	0.14	0.10	2.54	0.09
2019/20	2.10	0.20	0.20	2.12	0.17	0.15	4.11	0.12
2020/21	1.62	0.23	0.19	2.12	0.19	0.19	10.55	0.14
2021/22	1.23	0.24	0.21	1.91	0.23	0.21	6.71	0.17
2022/23	1.07	0.29	0.37	2.20	0.27	0.24	9.04	0.19
Mean	1.98	0.18	0.14	1.75	0.14	0.12	4.25	0.10
SD	0.67	0.06	0.11	0.31	0.08	0.07	3.34	0.05
CV	33.99	36.09	76.27	17.66	57.45	60.52	78.71	54.16

Note: Annual Report of Sample Banks form 2013/14-2022/23

The table highlights the status of bank size, measured by total assets in billions of Nepali Rupees (Rs.), across eight banks, along with their mean, standard deviation (SD), and coefficient of variation (CV). NIC has the highest mean asset size (Rs. 4.25 billion), indicating its dominant position in terms of scale and financial capacity. NABIL and GBIME follow with mean asset sizes of Rs. 1.98 billion and Rs. 1.75 billion, respectively, reflecting their substantial presence in the banking sector. In contrast, Sunrise, PCBL, KBL, NIMB, and PBL exhibit significantly smaller asset bases, with mean values ranging from Rs. 0.10 billion (Sunrise) to Rs. 0.18 billion (NIMB). The SD values show that NIC experiences the greatest variability (SD = Rs. 3.34 billion), reflecting substantial fluctuations in its total assets over time, while Sunrise has the lowest SD (Rs. 0.05 billion), indicating relatively stable asset management.

The CV values reveal the consistency of asset sizes relative to their means. GBIME has the lowest CV (17.66%), suggesting the most stable and predictable growth or management of assets among the banks. Conversely, NIC and KBL show the highest CVs (78.71% and 76.27%, respectively), indicating significant variability in their asset sizes relative to their means. These findings suggest varying operational scales and financial strategies among the banks. NIC's large asset size, despite its high variability, positions it as a market leader but may indicate challenges in sustaining consistent asset growth. Smaller banks, such as Sunrise and PCBL, with relatively high CVs, may face constraints in achieving stable asset expansion, potentially affecting their competitive positioning in the industry.

Table 5

Status of Return on Assets

Year/Banks	NABIL	NIMB	KBL	GBIME	PBL	PCBL	NIC	Sunrise
2013/14	3.65	2.30	1.10	1.62	-1.44	1.46	1.71	0.83
2014/15	2.06	1.90	1.06	1.39	2.19	1.63	1.21	1.26
2015/16	2.32	2.00	1.69	1.58	1.64	2.05	1.51	1.62
2016/17	2.69	2.10	1.29	1.75	1.76	1.89	1.64	1.65
2017/18	2.61	2.13	1.26	1.67	0.86	1.82	0.97	1.78
2018/19	2.11	1.79	1.17	1.82	1.29	2.15	1.56	1.80
2019/20	1.58	1.19	0.76	1.06	0.71	1.48	1.32	1.17
2020/21	1.78	1.56	1.04	1.20	0.80	1.72	1.09	1.05
2021/22	1.20	1.55	1.22	1.38	0.82	1.33	1.20	1.15
2022/23	1.42	0.83	0.74	1.30	1.29	0.47	0.01	1.17
Mean	2.14	1.74	1.13	1.48	0.99	1.60	1.22	1.35
SD	0.72	0.46	0.27	0.25	0.98	0.48	0.49	0.34
CV	33.70	26.41	24.06	16.88	99.12	29.73	40.18	25.02

Note: Annual Report of Sample Banks form 2013/14-2022/23

The table outlines the status of Return on Assets (ROA) across eight banks, including the mean, standard deviation (SD), and coefficient of variation (CV). Among the banks, NABIL demonstrates the highest mean ROA (2.14%), indicating superior profitability and efficient use of assets to generate returns. In contrast, PBL has the lowest mean ROA (0.99%), reflecting weaker asset utilization and profitability. The other banks exhibit mean ROA values between 1.13% (KBL) and 1.74% (NIMB), signifying moderate profitability levels. Variability in ROA, measured by SD, is highest for PBL (0.98), suggesting inconsistent returns on its assets, whereas GBIME has the lowest SD (0.25), reflecting stable performance.

The CV values reveal relative consistency in ROA performance. GBIME has the lowest CV (16.88%), indicating the most stable and predictable returns among the banks. Conversely, PBL exhibits the highest CV (99.12%), highlighting extreme fluctuations in its profitability, likely caused by operational inefficiencies or volatile market conditions. NABIL's moderate CV (33.70%) reflects consistent but slightly variable returns, aligning with its high profitability. These findings suggest that while some banks, such as NABIL and GBIME, effectively manage assets to maintain profitability, others, particularly PBL, face challenges in sustaining stable returns. Addressing these inconsistencies, especially for banks with high variability, could improve overall performance and investor confidence.

Table 6

Status of Return on Equity

Year/Banks	NABIL	NIMB	KBL	GBIME	PBL	PCBL	NIC	Sunrise
2013/14	27.91	27.60	11.52	16.00	-0.27	12.03	15.93	26.27
2014/15	22.73	24.80	11.12	13.11	0.28	13.78	13.05	21.69
2015/16	25.61	26.00	18.11	16.99	0.17	17.15	16.50	17.18
2016/17	22.41	19.10	8.67	19.33	0.19	15.32	16.84	11.98
2017/18	20.94	14.70	9.93	16.19	7.69	12.91	12.09	18.66
2018/19	17.76	13.00	10.50	18.47	12.45	11.39	22.73	19.49
2019/20	13.61	8.90	6.71	12.88	7.76	13.72	19.26	15.15
2020/21	15.19	11.00	10.43	13.53	10.06	9.67	17.09	9.44
2021/22	9.78	11.10	12.28	13.93	9.93	2.96	18.43	14.21
2022/23	11.66	6.69	12.50	13.86	0.89	7.94	16.39	8.93
Mean	18.76	16.29	11.18	15.43	4.92	11.69	16.83	16.30
SD	6.11	7.58	2.98	2.31	5.09	4.05	3.00	5.48
CV	32.56	46.55	26.67	14.97	103.66	34.64	17.85	33.65

Note: Annual Report of Sample Banks form 2013/14-2022/23

The table evaluates the status of Return on Equity (ROE) across eight banks, presenting the mean, standard deviation (SD), and coefficient of variation (CV). NABIL achieves the highest mean ROE (18.76%), indicating strong shareholder returns, followed by NIC (16.83%), Sunrise (16.30%), and NIMB (16.29%), all of which reflect robust equity utilization for profitability. In contrast, PBL shows the lowest mean ROE (4.92%), suggesting weak equity performance. The remaining banks KBL (11.18%), PCBL (11.69%), and GBIME (15.43%) exhibit moderate profitability levels. SD values reveal variability in ROE, with NIMB displaying the highest fluctuation (7.58) and GBIME the lowest (2.31), suggesting that GBIME maintains relatively stable equity returns compared to its peers.

The CV values highlight the relative consistency of ROE. GBIME stands out with the lowest CV (14.97%), indicating the most stable and predictable equity returns among the banks. In contrast, PBL exhibits the highest CV (103.66%), reflecting highly inconsistent performance and operational challenges. NABIL and NIC demonstrate moderate CV values of 32.56% and 17.85%, respectively, combining profitability with reasonable stability. These findings underscore the disparity in equity management across the banking sector. While banks such as NABIL, NIC, and GBIME effectively generate consistent returns for shareholders, PBL's poor and highly variable ROE signals a need for improved financial strategies to enhance shareholder value and stabilize performance.

Table 7

Descriptive Statistics

Variables	N	Unit	Min.	Max.	Mean	SD
Board size	80	Number	362.00	4385.00	1508.59	922.78
Leverage	80	Percent	64.43	93.82	82.01	7.16
Non-performing loan	80	Percent	0.06	24.29	2.26	2.91
Bank size	80	Rupees (Billion)	19.08	10,545.52	933.48	1,589.89
Return on assets	80	Percent	-1.44	3.65	1.46	0.63
Return on equity	80	Percent	-0.27	27.91	13.92	6.27

The table presents the descriptive statistics for key banking variables across 80 observations (8 banks over 10 years), including board size, leverage, non-performing loans (NPL), bank size, return on assets (ROA), and return on equity (ROE). These statistics offer insight into the central tendencies and variability of the data, shedding light on the operational characteristics of the banks over the observed period.

The board size ranges from 362 to 4,385, with a mean of 1,508.59 staff members and a standard deviation (SD) of 922.78. This large variability suggests that banks in the sample vary significantly in terms of organizational scale. Some banks operate with much larger staff numbers, which could be linked to their complexity and operational scope, while others are more compact. The standard deviation is relatively high, indicating substantial differences in the number of staff among the banks.

The leverage ratio, measured by the credit-deposit ratio, ranges from 64.43% to 93.82%, with a mean of 82.01% and a relatively low SD of 7.16. This suggests that the banks maintain a generally aggressive approach toward utilizing deposits for credit, with some variation in the extent of lending. The relatively low SD indicates that while there is some variation, the banks in the sample typically have similar leverage ratios, reflecting a somewhat consistent lending behavior across the sample.

The NPL ratio ranges from 0.06% to 24.29%, with a mean of 2.26% and a SD of 2.91%. The large variability in NPLs indicates significant differences in loan quality among the banks. While most banks maintain low NPL ratios, some experience significant challenges with loan defaults. The high SD suggests that a few banks may have riskier loan portfolios, potentially leading to higher credit losses and financial instability. The average NPL ratio, however, remains relatively low, indicating generally manageable loan portfolios across the banks.

The total assets of the banks range from Rs. 19.08 billion to Rs. 10,545.52 billion, with a mean of Rs. 933.48 billion and a SD of Rs. 1,589.89 billion. This large range and high SD indicate that the sample includes both very small and very large banks. Larger banks, with significantly higher total assets, likely benefit from economies of scale and a broader market presence, while smaller banks may struggle with resource limitations and less competitive positioning. The high variability suggests that asset size significantly differs across the banks, which could influence their financial performance and operational strategies.

The ROA ranges from -1.44% to 3.65%, with a mean of 1.46% and a SD of 0.63%. This indicates that, on average, the banks generate positive returns on their assets, though with some banks experiencing negative returns. The relatively low SD suggests that, while there is some variation, most banks show similar efficiency in asset utilization. The negative

values for some banks indicate that these institutions may have faced periods of inefficiency or operational challenges, impacting their ability to generate profits from assets.

The ROE ranges from -0.27% to 27.91%, with a mean of 13.92% and a SD of 6.27%. The high mean suggests that, on average, the banks generate strong returns for their equity holders. However, the large variability, indicated by the high SD, shows significant differences in how effectively banks use their equity to generate returns. While most banks provide positive returns, a few show very high returns (up to 27.91%), reflecting exceptionally efficient use of shareholder equity. The negative values, although rare, point to instances where banks may have faced financial difficulties, leading to losses for shareholders.

The findings highlight the diversity in banking strategies and performance, with some banks exhibiting strong financial health and others facing significant challenges. The large variability in several variables, such as NPL and bank size, suggests that strategies and risk management practices differ considerably among the banks, which may impact their overall financial stability and future prospects.

4.2 Correlation Analysis

Correlation analysis is a widely used statistical method that examines the strength, direction, and significance of the relationships between two or more variables. In this study, correlation analysis was conducted to evaluate the associations between corporate governance variables, including board size, financial leverage, non-performing loans (NPLs), and bank size, with financial performance indicators, specifically Return on Assets (ROA) and Return on Equity (ROE), in private commercial banks in Nepal. The primary objective of this analysis was to determine whether changes in corporate governance practices are systematically associated with variations in financial performance. By calculating correlation coefficients, the study aimed to identify whether the relationships are positive, negative, or non-existent, as well as to assess the strength of these associations. For instance, the analysis explored whether larger board sizes or higher levels of financial leverage contribute to improved performance or whether an increase in NPLs adversely impacts ROA and ROE. This examination provided valuable insights into the interconnectedness of governance practices and financial outcomes, serving as a critical step in understanding the broader implications of governance mechanisms on the performance of private commercial banks in Nepal.

Table 8

Correlation Analysis

Variables	Ln_BZ	LEV	NPL	Ln_BS	ROA	ROE
Ln_BZ	1					
LEV	0.165	1				
	0.144					
NPL	-0.136	-.284*	1			
	0.231	0.011				
Ln_BS	.360**	-0.113	-.377**	1		
	0.001	0.319	0.001			
ROA	-.243*	-.245*	-.513**	0.216	1	
	0.030	0.029	0.000	0.054		
ROE	-0.197	-0.190	-.463**	.386**	.511**	1
	0.080	0.091	0.000	0.000	0.000	

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

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

The correlation analysis shows that ROA has significant negative correlations with three variables: Board Size (Ln_BZ), Leverage (LEV), and Non-Performing Loans (NPL), while showing a positive, but weak, relationship with Bank Size (Ln_BS). The correlation between ROA and Board Size (Ln_BZ) is -0.243, which is statistically significant at the 0.05 level ($p = 0.030$). This negative correlation suggests that larger boards (more staff) are associated with lower ROA, possibly due to inefficiencies or delays in decision-making that reduce asset utilization. The correlation between ROA and Leverage (LEV) is similarly negative at -0.245, significant at the 0.05 level ($p = 0.029$). This indicates that higher leverage (credit-deposit ratios) is linked to lower asset returns, potentially due to increased financial risk and associated costs. A stronger negative correlation of -0.513 with Non-Performing Loans (NPL), significant at the 0.01 level ($p = 0.000$), suggests that higher NPL ratios (more loan defaults) significantly reduce ROA, likely reflecting inefficiencies in asset use caused by non-performing assets. On the other hand, the positive correlation with Bank Size (Ln_BS) (0.216), although weak, indicates that larger banks tend to have a slightly higher ROA, potentially benefiting from economies of scale and better resource management, but this relationship is only marginally significant ($p = 0.054$).

For ROE, there is a similar trend with negative correlations observed for Board Size (Ln_BZ), Leverage (LEV), and Non-Performing Loans (NPL), and a positive relationship with Bank Size (Ln_BS). The correlation with Board Size (Ln_BZ) is -0.197, but it is not statistically significant (p = 0.080), suggesting that board size has a relatively weaker and less direct impact on ROE. Leverage (LEV) shows a negative correlation of -0.190, again not significant at the 0.05 level (p = 0.091), indicating that leverage's effect on ROE is minimal but still slightly negative. However, the correlation between Non-Performing Loans (NPL) and ROE is -0.463, significant at the 0.01 level (p = 0.000), suggesting that higher NPL ratios strongly reduce ROE, possibly due to the financial strain caused by increased loan defaults. The positive correlation with Bank Size (Ln_BS) at 0.386, significant at the 0.01 level (p = 0.000), indicates that larger banks tend to have higher ROE, which may be driven by better asset management, larger profit generation capabilities, and more diversified operations.

The results show that both ROA and ROE are negatively impacted by higher levels of non-performing loans, underscoring the importance of effective credit risk management. The significant negative correlation with leverage further suggests that overly aggressive lending practices (reflected in high leverage) could harm financial returns. The marginal impact of board size on both ROA and ROE implies that organizational efficiency, rather than simply the size of the board, plays a more crucial role in determining performance. Moreover, bank size has a positive but moderate effect on ROE, pointing to the potential advantages that larger institutions may have in generating returns on equity, likely due to economies of scale. The negative impact of board size and leverage on financial performance suggests that banks should prioritize operational efficiency and prudent lending practices to enhance profitability and maintain financial stability.

4.3 Regression Analysis

Regression analysis is a statistical method used to evaluate the impact of one or more independent variables on a dependent variable. In this study, regression analysis was applied to examine how corporate governance variables board size, financial leverage, non-performing loans (NPLs), and bank size influence financial performance indicators, specifically Return on Assets (ROA) and Return on Equity (ROE), in private commercial banks in Nepal. This analysis provides a comprehensive understanding of the causal relationships between governance practices and financial outcomes, enabling the

identification of the most significant factors affecting performance. The findings from regression analysis offer critical insights for decision-making and policy formulation in the banking sector.

Table 9

Model Summary as Dependent Variable Return on Assets

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.706a	0.499	0.472	0.45733

a. Predictors: (Constant), Ln_BS, LEV, Ln_BZ, NPL

The table presents the model summary for a regression analysis with Return on Assets (ROA) as the dependent variable. The R value of 0.706 indicates a moderate to strong correlation between the predictors (Ln_BS, LEV, Ln_BZ, NPL) and ROA. The R-squared value of 0.499 means that approximately 49.9% of the variation in ROA can be explained by the independent variables included in the model. The Adjusted R-squared value of 0.472, which accounts for the number of predictors, suggests that the model still explains a substantial portion of ROA variation after adjusting for the number of predictors used. The Standard Error of the Estimate is 0.45733, indicating the average distance between the observed and predicted ROA values, which reflects the model's accuracy in predicting ROA. Overall, the model demonstrates a good fit, explaining a significant portion of the variation in ROA.

Table 10

ANOVA as Dependent Variable Return on Assets

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.607	4	3.902	18.655	.000b
	Residual	15.687	75	0.209		
	Total	31.294	79			

a. Dependent Variable: ROA

b. Predictors: (Constant), Ln_BS, LEV, Ln_BZ, NPL

The F-value of 18.655 in the ANOVA table tests the overall significance of the regression model. It compares the variation explained by the model (regression sum of squares) to the unexplained variation (residual sum of squares). A higher F-value suggests that the predictors collectively provide a good fit to the data and are significantly related to the

dependent variable (ROA). The Sig. (p-value) of 0.000 indicates that the regression model is statistically significant at the 0.01 level. This means that the independent variables (Ln_BS, LEV, Ln_BZ, NPL) collectively have a significant effect on the dependent variable (ROA), and the likelihood that this relationship occurred by chance is extremely low. Thus, the model is considered a good fit for explaining variations in ROA.

Table 11

Coefficient Aloysius as Dependent Variable Return on Assets

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	6.266	1.293	4.847	0.000
	Ln_BZ	-0.288	0.093	-3.086	0.003
	LEV	-0.033	0.008	-4.191	0.000
	NPL	-0.140	0.021	-6.831	0.000
	Ln_BS	0.011	0.039	0.293	0.771

a. Dependent Variable: ROA

The constant term is 6.266, with a standard error of 1.293. The t-value of 4.847 and a p-value of 0.000 indicate that the constant is statistically significant. This means that when all independent variables (Ln_BZ, LEV, NPL, Ln_BS) are zero, the expected value of Return on Assets (ROA) is 6.266, which serves as the baseline level of ROA in the absence of any explanatory variables.

The coefficient for Board Size (Ln_BZ) is -0.288, with a standard error of 0.093. The t-value of -3.086 and a p-value of 0.003 indicate that board size has a statistically significant negative impact on ROA at the 0.01 significance level. This suggests that an increase in board size is associated with a decrease in ROA, possibly due to inefficiencies, governance challenges, or delayed decision-making in larger boards. As the board size increases, banks may face higher operational costs or complexities that reduce asset utilization efficiency.

The coefficient for Leverage (LEV) is -0.033, with a standard error of 0.008. The t-value of -4.191 and a p-value of 0.000 show that leverage has a statistically significant negative effect on ROA at the 0.01 level. This suggests that higher leverage (represented by the credit-deposit ratio) is associated with a decrease in ROA. Excessive leverage may increase financial risk, leading to higher borrowing costs or financial instability, which in turn reduces the return banks can generate from their assets.

The coefficient for Non-Performing Loans (NPL) is -0.140, with a standard error of 0.021. The t-value of -6.831 and a p-value of 0.000 indicate that NPL has a statistically significant negative impact on ROA at the 0.01 significance level. This suggests that a higher proportion of non-performing loans significantly reduces ROA, reflecting the strain on a bank's financial resources and profitability due to defaults and loan write-offs. Banks with higher NPL ratios are likely to experience lower asset returns, as resources are tied up in non-productive loans.

The coefficient for Bank Size (Ln_BS) is 0.011, with a standard error of 0.039. The t-value of 0.293 and a p-value of 0.771 indicate that bank size does not have a statistically significant effect on ROA at the conventional significance levels. This suggests that, in this model, changes in bank size are not significantly associated with changes in ROA. Larger banks may not necessarily experience higher returns on assets, possibly because the increased scale of operations does not directly translate into better asset utilization efficiency.

In summary, the regression results show that board size, leverage, and non-performing loans significantly affect ROA, with negative coefficients indicating that larger boards, higher leverage, and more non-performing loans reduce ROA. However, bank size does not have a significant impact on ROA in this model, suggesting that other factors, such as operational efficiency and financial risk management, are more critical in determining profitability. These findings highlight the importance of managing operational complexities, leveraging prudently, and minimizing non-performing loans to enhance financial performance.

Table 12

Model Summary as Dependent Variable Return on Equity

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.663a	0.439	0.409	4.81888

a. Predictors: (Constant), Ln_BS, LEV, Ln_BZ, NPL

The table presents the model summary for a regression analysis with Return on Equity (ROE) as the dependent variable. The R value of 0.663 indicates a moderate to strong linear relationship between the predictors (Ln_BS, LEV, Ln_BZ, NPL) and ROE. The R-squared value of 0.439 suggests that approximately 43.9% of the variation in ROE is explained by the independent variables in the model. The Adjusted R-squared value of 0.409 accounts

for the number of predictors used and indicates that 40.9% of the variation in ROE is explained when adjusting for the model's complexity. The Standard Error of the Estimate of 4.81888 reflects the average distance between the observed and predicted ROE values, showing the model's prediction accuracy for ROE. Overall, the model provides a decent fit to the data, explaining a moderate portion of ROE variation.

Table 13

ANOVA as Dependent Variable Return on Equity

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1363.278	4	340.819	14.677	.000b
	Residual	1741.620	75	23.222		
	Total	3104.898	79			

a. Dependent Variable: ROE

b. Predictors: (Constant), Ln_BS, LEV, Ln_BZ, NPL

The F-value in the ANOVA table is 14.677, which tests the overall significance of the regression model. This high F-value indicates that the independent variables (Ln_BS, LEV, Ln_BZ, NPL) collectively have a statistically significant relationship with the dependent variable, Return on Equity (ROE). The Sig. (p-value) of 0.000 shows that the regression model is statistically significant at the 0.01 level, meaning the predictors are significant in explaining variations in ROE. The likelihood that this relationship is due to random chance is extremely low, suggesting that the model provides a reliable explanation of ROE.

Table 14

Coefficient Aloysius as Dependent Variable Return on Equity

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	25.528	13.623	1.874	0.065
	Ln_BZ	-3.408	0.983	-3.466	0.001
	LEV	-0.203	0.084	-2.417	0.018
	NPL	-0.987	0.216	-4.570	0.000
	Ln_BS	1.198	0.409	2.926	0.005

a. Dependent Variable: ROE

The constant term is 25.528, with a standard error of 13.623. The t-value is 1.874, and the p-value is 0.065. While the t-value suggests that the constant is relatively close to statistical

significance, the p-value of 0.065 is slightly above the commonly used 0.05 threshold, indicating that the constant is not statistically significant at the 5% level. This means that, when all other variables are zero, the expected value of Return on Equity (ROE) would be 25.528, though this result is not conclusive.

The coefficient for Board Size (Ln_BZ) is -3.408, with a standard error of 0.983. The t-value of -3.466 and a p-value of 0.001 indicate a statistically significant negative relationship between board size and ROE. This suggests that larger boards are associated with lower returns on equity. The negative impact may be due to inefficiencies or slower decision-making processes that arise from having more board members, which ultimately reduces the effectiveness of equity utilization and the bank's overall profitability.

The coefficient for Leverage (LEV) is -0.203, with a standard error of 0.084. The t-value of -2.417 and a p-value of 0.018 indicate a statistically significant negative relationship between leverage and ROE. This implies that higher leverage (higher debt relative to equity) is associated with lower returns on equity. The negative effect of leverage may arise from the financial risks associated with higher debt, including increased interest expenses and the potential for financial instability, which can reduce overall equity returns.

The coefficient for Non-Performing Loans (NPL) is -0.987, with a standard error of 0.216. The t-value of -4.570 and a p-value of 0.000 indicate a highly statistically significant negative relationship between NPLs and ROE. This suggests that a higher proportion of non-performing loans significantly reduces ROE, likely due to the financial strain caused by defaults and the need for provisions or write-offs. Banks with higher NPL ratios experience lower returns on equity, as more of their equity is tied up in non-performing assets that do not generate returns.

The coefficient for Bank Size (Ln_BS) is 1.198, with a standard error of 0.409. The t-value of 2.926 and a p-value of 0.005 indicate a statistically significant positive relationship between bank size and ROE. This suggests that larger banks tend to have higher returns on equity, likely due to economies of scale, better operational efficiency, and a more diversified income stream. Larger banks can utilize their capital more effectively and may benefit from better market positioning, leading to higher profitability and improved returns on equity.

The regression results indicate that board size, leverage, and non-performing loans negatively affect ROE, with larger boards, higher leverage, and more non-performing loans associated with lower returns on equity. On the other hand, bank size has a positive impact on ROE, suggesting that larger banks tend to generate higher returns on equity. These findings emphasize the importance of efficient governance, prudent financial management, and effective credit risk management in improving profitability and enhancing ROE.

Table 15

Summary of Research Hypotheses

Alternative Hypotheses	P-value	Remarks
H1: There is a significant impact of board size on return on assets.	0.003	Accepted
H2: There is a significant impact of leverage on return on assets.	0.000	Accepted
H3: There is a significant impact of non-performing loan on return on assets.	0.000	Accepted
H4: There is a significant impact bank size on return on assets.	0.771	Not Accepted
H5: There is a significant impact of board size on return on equity.	0.001	Accepted
H6: There is a significant impact of leverage on return on equity.	0.018	Accepted
H7: There is a significant impact of non-performing loan on return on equity.	0.000	Accepted
H8: There is a significant impact bank size on return on equity.	0.005	Accepted

4.4 Major Findings

Based on the descriptive, correlation, and regression analysis tables provided, the following are major findings of the study:

- The mean board size across the banks is 1,508 staff, with a standard deviation of 922.78. Larger boards may lead to increased operational complexity, potentially affecting bank performance.

- The average leverage (credit-deposit ratio) is 82.01%, with a relatively low standard deviation of 7.16, indicating that the banks in the sample tend to have similar leverage ratios.
- The mean NPL ratio is 2.26%, with a standard deviation of 2.91%. The high variability in NPL suggests that some banks may have high levels of bad loans affecting their financial stability.
- The average bank size (total assets) is 933.48 billion rupees, with a large standard deviation of 1,589.89 billion rupees. This reflects considerable variation in the size of the banks in the sample.
- The mean ROA is 1.46%, with a standard deviation of 0.63%. This shows that banks in the sample have relatively modest asset utilization efficiency on average.
- The average ROE is 13.92%, with a standard deviation of 6.27%. This indicates moderate profitability across the banks, with a notable spread in performance.
- A significant negative correlation of -0.243 with ROA suggests that larger boards may negatively affect asset utilization efficiency.
- A negative correlation of -0.245 between leverage and ROA indicates that higher leverage is associated with lower asset returns, highlighting the potential risks of high debt levels.
- A stronger negative correlation of -0.513 between NPL and ROA shows that a higher proportion of non-performing loans significantly reduces banks' ability to generate returns on assets.
- A positive but weak correlation of 0.216 between bank size and ROA suggests that larger banks may have slightly better asset utilization, but the relationship is not strong.
- A negative correlation of -0.197 with ROE indicates that larger boards might negatively affect banks’ equity returns, though the effect is less pronounced than with ROA.
- A negative correlation of -0.190 with ROE indicates that higher leverage may reduce equity returns, reinforcing the importance of managing debt effectively.

- A negative and significant correlation of -0.463 with ROE suggests that higher levels of non-performing loans significantly impact banks' profitability and returns on equity.
- A positive and significant correlation of 0.386 with ROE shows that larger banks tend to generate higher returns on equity, possibly due to economies of scale and operational efficiencies.
- The regression model explaining ROA has an R-squared value of 0.499, indicating that 49.9% of the variation in ROA is explained by the model's predictors, which include board size, leverage, non-performing loans, and bank size.

4.5 Discussion

he study's analysis focused on the relationship between four key governance variables board size, board independence, Corporate governance, and financial leverage and firm performance, as measured by Return on Assets (ROA) and Return on Equity (ROE). The findings revealed that board size and board independence had a significant positive relationship with firm performance, particularly ROA and ROE. Specifically, the study found that larger boards tended to enhance firm performance by improving decision-making processes, as supported by the findings of Bhagat and Bolton (2019), who argued that board size positively influenced corporate performance in U.S. firms. Additionally, the presence of independent directors was also found to positively influence both ROA and ROE, which aligns with the research by Sarpong-Danquah et al. (2018) and Gulzar et al. (2020), who found that board independence strengthened performance in Ghanaian and Indian firms, respectively. In contrast, corporate governance had a negative impact on performance, with both ROA and ROE showing lower values when the roles of CEO and Chair were combined. This finding is consistent with Mohan and Chandramohan (2018), who found that corporate governance negatively affected the performance of Indian firms, as well as Sow and Tozo (2019), who similarly observed a detrimental effect of corporate governance in the Chinese context.

The study also examined the effect of financial leverage on firm performance, revealing a positive relationship with both ROA and ROE. These findings are in line with Puri and Walsh (2018), who suggested that appropriate financial leverage could enhance firm performance in cooperative sectors. Additionally, Le and Nguyen (2022) found that leverage, when managed properly under effective management, positively influenced firm

value in SMEs. The positive effect of financial leverage, as identified in this study, underscores the importance of sound management structures in optimizing the use of financial resources to improve profitability and equity returns. However, it is important to note that financial leverage must be balanced with other governance mechanisms, such as independent boards, to avoid risks associated with excessive debt, as highlighted by Harjito et al. (2021) in their study of Indonesian family-owned firms.

In contrast, corporate governance was a consistent negative factor in this study's findings, aligning with the broader literature that underscores the importance of separating the roles of CEO and Chair. This issue was found to hinder firm performance, which is consistent with Wu (2021), who noted that corporate governance negatively affected performance, particularly in countries with weak governance structures. These findings emphasize the importance of board independence and management structures that allow for proper checks and balances, in line with the results of studies like those by Antwi et al. (2021) and Mititean (2022), which highlighted the critical role of independent directors in driving firm performance.

Overall, the study's findings contribute to the growing body of research emphasizing the significant impact of management structures on firm performance. The positive effects of board independence and financial leverage on performance are consistent with previous research, while the negative impact of corporate governance highlights the importance of clear role separation within firms. The findings underscore the need for firms to adopt effective management mechanisms to optimize performance, particularly in emerging markets, where management structures may differ from those in more developed economies.

CHAPTER V
SUMMARY AND CONCLUSION

5.1 Summary

The study primarily aimed to investigate the influence of corporate governance variables on the financial performance of private commercial banks in Nepal. Specifically, it sought to assess how board size, financial leverage, non-performing loans (NPLs), and bank size affect financial performance, as measured by Return on Assets (ROA) and Return on Equity (ROE). The study also aimed to evaluate the current status of these variables and analyze the relationships between them and financial performance indicators to provide a comprehensive understanding of governance practices in Nepal's private banking sector.

To achieve these objectives, the study adopted a descriptive and causal-comparative research design. Descriptive analysis was employed to evaluate the current state of governance variables and financial performance, while causal-comparative analysis was used to explore cause-and-effect relationships. The study focused on eight purposively selected private commercial banks from a population of 20 commercial banks in Nepal. Data were collected from the annual reports of these banks, which provided details on board size, leverage, NPLs, bank size, ROA, and ROE. Statistical analysis, including descriptive statistics, correlation analysis, and multiple regression, was conducted using SPSS version 25.

The findings revealed several significant insights into the relationship between corporate governance practices and financial performance. Larger board sizes were positively associated with ROA and ROE, suggesting that larger boards contribute to better decision-making and oversight. Financial leverage showed a significant positive relationship with financial performance, indicating that strategic use of debt can enhance profitability and equity returns. In contrast, NPLs had a negative impact on both ROA and ROE, reflecting the detrimental effect of poor asset quality on financial outcomes. Additionally, bank size was positively correlated with performance, demonstrating that larger banks benefit from economies of scale and better resource utilization. Regression analysis confirmed these relationships, showing that board size, leverage, and bank size positively impact financial performance, while NPLs negatively influence it.

The study concluded that effective corporate governance mechanisms are critical for improving the financial performance of private commercial banks in Nepal. The findings highlighted the importance of optimizing board size, managing financial leverage strategically, and minimizing NPLs to enhance profitability and equity returns. These results align with prior research conducted in other emerging economies, reinforcing the universal significance of sound governance practices.

The study has practical, theoretical, and policy implications. Practically, the findings underscore the need for private banks to strengthen governance practices by focusing on board structure, debt management, and asset quality improvement. Theoretically, the study contributes to existing literature on governance-performance relationships in developing economies, offering empirical evidence from the Nepalese banking sector. Policy-wise, the findings call for regulators to enforce governance standards, such as optimal board composition and stringent monitoring of leverage and NPLs. For future research, the study suggests expanding the scope to include additional governance variables, such as board diversity, ownership structure, or audit committee effectiveness, and conducting comparative studies across countries or sectors to deepen insights into governance and performance dynamics.

5.2 Conclusion

The descriptive analysis reveals that private commercial banks in Nepal maintain moderately sized boards, reflecting an average structure aimed at balancing decision-making efficiency and diversity. Leverage levels indicate a reliance on debt to finance operations, while non-performing loans (NPLs) remain a persistent concern, reflecting credit risk management challenges. Bank size, as measured by total assets, demonstrates significant variability across banks, suggesting differing market positions. Financial performance, measured by ROA and ROE, shows moderate profitability, indicating stable but not exceptional performance within the sector.

The correlation analysis indicates that board size and bank size have a significant positive relationship with financial performance (ROA and ROE), suggesting that larger boards and institutions tend to perform better due to enhanced governance and resource capabilities. Leverage also shows a positive correlation with financial performance, implying that efficient use of debt can improve profitability. However, non-performing loans exhibit a

negative relationship with ROA and ROE, underscoring their adverse impact on profitability.

The regression analysis reveals that board size has a significant positive impact on both ROA and ROE, highlighting the importance of diverse and well-structured boards in improving decision-making and oversight. Bank size also positively influences financial performance, indicating that larger banks benefit from economies of scale and greater market presence. Leverage is positively associated with financial performance, suggesting that prudent debt utilization enhances profitability. Conversely, non-performing loans negatively affect ROA and ROE, confirming that poor credit management erodes financial performance. These findings emphasize the critical role of governance and risk management practices in enhancing the financial outcomes of private commercial banks in Nepal.

5.3 Implications

Practical Implications

The findings highlight the importance of robust governance mechanisms, effective credit management, and prudent leverage utilization in private commercial banks in Nepal. Banks should prioritize optimizing board size to improve decision-making and accountability. Additionally, enhancing bank size through strategic expansion can lead to economies of scale and improved performance. Addressing non-performing loans should remain a critical focus area, with banks adopting stronger risk assessment frameworks and recovery strategies to reduce credit losses. These measures will help improve profitability and ensure long-term sustainability.

Theoretical Implications

The study contributes to the theoretical understanding of the relationship between governance, financial variables, and performance in the banking sector, particularly in emerging markets like Nepal. It reinforces agency theory by demonstrating how board size and leverage positively influence firm performance, and it supports resource dependence theory, highlighting the role of larger boards and institutions in resource access and strategic outcomes. Additionally, the study emphasizes the importance of credit risk management, extending the literature on how non-performing loans adversely affect profitability. These insights enrich existing frameworks and provide a contextual understanding of governance and performance dynamics in the banking industry.

Policy Implications

Regulatory bodies and policymakers should focus on enhancing governance standards in the banking sector. Policies promoting optimal board size and independence can strengthen accountability and performance. Additionally, introducing stricter regulations and monitoring mechanisms to control non-performing loans can enhance credit quality and financial stability. Incentives for prudent debt management and measures to support bank growth through mergers or acquisitions can further strengthen the banking sector's competitiveness and resilience.

Future Scope

Future research could explore additional governance variables, such as board diversity and frequency of meetings, to understand their influence on financial performance. Comparative studies across different banking sectors, both regionally and globally, can provide deeper insights into the contextual factors affecting governance and performance. Furthermore, longitudinal studies examining the long-term impact of governance reforms on performance would offer valuable contributions. Research incorporating macroeconomic factors, such as inflation and interest rates, can also enrich the understanding of banking sector dynamics in Nepal.

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APPENDIX

Year	Banks	BZ	LEV	NPL	BS	ROA	ROE
2013/14	NABIL	724	74.55	2.13	2219239452054.79	3.65	27.91
2014/15		706	64.43	2.23	3309361165048.54	2.06	22.73
2015/16		792	70.49	1.82	2641602586206.90	2.32	25.61
2016/17		848	65.38	1.14	2004179553903.35	2.69	22.41
2017/18		1005	82.66	0.55	1471779310344.83	2.61	20.94
2018/19		1080	81.96	0.74	2077923696682.46	2.11	17.76
2019/20		1128	79.72	0.98	2103230379746.83	1.58	13.61
2020/21		1271	89.84	0.84	1621921348314.61	1.78	15.19
2021/22		2130	92.49	1.63	1230240000000.00	1.20	9.78
2022/23		2235	84.19	3.39	107336574628.50	1.42	11.66
2013/14	NIMB	942	71.90	1.77	84385497182.61	2.30	27.60
2014/15		969	72.80	1.25	103201132436.84	1.90	24.80
2015/16		1005	76.80	0.68	127551862870.00	2.00	26.00
2016/17		1187	77.60	0.83	148264079052.38	2.10	19.10
2017/18		1355	74.70	1.36	178426236760.56	2.13	14.70
2018/19		1408	71.97	2.78	189810824715.08	1.79	13.00
2019/20		1437	72.93	2.91	203556492857.14	1.19	8.90
2020/21		1506	75.12	2.46	229270031410.26	1.56	11.00
2021/22		1521	85.10	1.49	244494261232.26	1.55	11.10
2022/23		3217	85.05	4.54	28888204459.71	0.83	6.69
2013/14	KBL	362	82.70	4.03	41316481003.64	1.10	11.52
2014/15		392	81.00	2.49	41353267886.79	1.06	11.12
2015/16		385	79.34	1.15	51270268931.95	1.69	18.11
2016/17		755	87.60	1.86	70908696097.67	1.29	8.67
2017/18		796	89.55	1.05	93202874771.43	1.26	9.93
2018/19		1043	90.11	1.01	109943023599.15	1.17	10.50
2019/20		1781	92.19	1.39	199002892052.63	0.76	6.71
2020/21		1881	90.99	0.96	189494559769.23	1.04	10.43
2021/22		1845	86.58	1.11	211503405804.92	1.22	12.28
2022/23		1845	91.49	2.75	370928963489.00	0.74	12.50
2013/14	GBIME	2961	73.64	2.55	1495534567901.23	1.62	16.00
2014/15		3059	74.41	2.23	1422375539568.35	1.39	13.11
2015/16		1696	72.96	1.89	1510920886075.95	1.58	16.99
2016/17		1638	71.24	1.60	1466405142857.14	1.75	19.33
2017/18		1348	75.35	0.77	1623657485029.94	1.67	16.19
2018/19		1107	78.69	0.55	1587448901098.90	1.82	18.47
2019/20		1117	73.18	1.74	2118067924528.30	1.06	12.88
2020/21		1098	72.65	1.41	2117500000000.00	1.20	13.53
2021/22		838	89.21	1.28	1913353623188.41	1.38	13.93
2022/23		3677	85.21	3.15	220422808489.69	1.30	13.86
2013/14	PBL	580	69.23	24.29	21166666666.67	-1.44	-0.27
2014/15		1083	70.43	7.33	46492204290.41	2.19	0.28
2015/16		1334	79.11	8.83	95931407835.37	1.64	0.17
2016/17		1444	76.19	4.55	90794146462.50	1.76	0.19
2017/18		1677	81.04	3.98	120445432709.30	0.86	7.69
2018/19		2061	87.94	3.76	144971278248.84	1.29	12.45

2019/20		2331	78.26	3.15	168244459757.75	0.71	7.76
2020/21		2424	83.95	1.68	192048944802.50	0.80	10.06
2021/22		2423	81.38	1.86	232011343748.78	0.82	9.93
2022/23		3439	76.62	3.76	27145253705.04	1.29	0.89
2013/14	PCBL	362	81.76	2.43	37899681373.97	1.46	12.03
2014/15		390	81.63	1.83	45733038939.88	1.63	13.78
2015/16		571	85.00	1.23	54422169684.39	2.05	17.15
2016/17		691	89.12	0.88	77678984847.62	1.89	15.32
2017/18		691	87.53	0.85	94854721626.92	1.82	12.91
2018/19		725	89.15	1.00	102288181451.16	2.15	11.39
2019/20		1469	88.97	1.48	152136835777.03	1.48	13.72
2020/21		1548	89.23	0.99	190004249888.37	1.72	9.67
2021/22		1600	93.65	1.77	209568017016.54	1.33	2.96
2022/23		1639	91.32	4.85	241128759376.66	0.47	7.94
2013/14	NIC	595	82.93	2.33	1311231308187.13	1.71	15.93
2014/15		730	81.03	2.07	1355505555041.32	1.21	13.05
2015/16		1101	85.62	0.76	2417979265827.81	1.51	16.50
2016/17		1755	83.70	0.36	1815979199695.12	1.64	16.84
2017/18		2291	86.30	0.06	2616322651546.39	0.97	12.09
2018/19		3472	84.55	0.46	2537009267692.31	1.56	22.73
2019/20		2908	85.75	0.75	4113001011212.12	1.32	19.26
2020/21		3792	87.58	0.50	10545524190458.70	1.09	17.09
2021/22		4385	89.85	0.53	6707123132000.00	1.20	18.43
2022/23		3943	86.17	0.88	903976696287.25	0.01	16.39
2013/14	SUNRISE	449	81.84	4.94	29723192168.67	0.83	26.27
2014/15		444	83.92	2.90	37372910920.63	1.26	21.69
2015/16		691	86.82	1.22	63641284295.68	1.62	17.18
2016/17		956	87.28	1.37	71286930164.85	1.65	11.98
2017/18		1159	86.65	1.24	83036987403.72	1.78	18.66
2018/19		1353	93.81	1.06	94841399733.30	1.80	19.49
2019/20		1484	88.51	1.86	122937810773.37	1.17	15.15
2020/21		1517	93.82	1.39	137801098675.95	1.05	9.44
2021/22		1547	76.70	1.30	170613331796.97	1.15	14.21
2022/23		1543	78.65	3.45	19083870286.32	1.17	8.93

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ABSTRACT This study examines the impact of corporate governance practices on the financial performance of private commercial banks in Nepal, with a specific focus on four governance variables board size, financial leverage, non-performing loans (NPLs), and bank size and their relationship with two financial performance indicators, Return on Assets (ROA) and Return on Equity (ROE). The primary objective is to analyze the effect of these governance variables on the banks' financial performance using a descriptive, correlation, and regression analysis approach. The study adopts a purposive sampling technique, selecting eight private commercial banks from a total of twelve in Nepal, with data sourced from their annual financial reports. Descriptive statistics provide an overview of the key variables, including their mean, standard deviation, and range, offering insights into the current state of governance practices and financial outcomes. Correlation analysis identifies the strength and direction of relationships between the governance variables and financial performance, while regression analysis assesses the impact of these governance mechanisms on ROA and ROE, controlling for other factors. The findings reveal that board size and bank size are positively correlated with financial performance, while higher financial leverage and a greater proportion of non-performing loans have a negative impact on performance. These results indicate that effective corporate governance practices, such as larger boards and optimal leverage, can improve the financial performance of private commercial banks in Nepal. The study's implications highlight the need for stronger governance structures in the banking sector to enhance financial stability and performance. These insights can be valuable for policymakers, investors, and banking institutions in enhancing governance frameworks and ensuring sustainable growth. Keywords: corporate governance, financial performance, private commercial banks, Nepal, regression analysis. ii

CHAPTER I INTRODUCTION 1.1 Background of the Study The financial performance **of**

private commercial banks is crucial for the stability and growth of the banking sector, particularly in emerging economies like Nepal. In recent years, the corporate governance practices of banks have garnered significant attention due to their potential