

CORPORATE GOVERNANCE PRACTICES IN FAMILY OWNED BUSINESSES IN NEPAL

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CERTIFICATION OF AUTHORSHIP

I hereby confirm that I have submitted the final version of my dissertation titled **“Corporate Governance Practices in Family Owned Businesses In Nepal”** This work has not been previously submitted for any degree, nor has it been proposed or presented to meet the requirements of any other academic program. I have acknowledged all assistance and cooperation received during this research. Additionally, I affirm that all sources and literature referenced are properly cited in the dissertation's reference section.

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REPORT OF RESEARCH COMMITTEE

Mr. Arun Sidgel has defended research proposal entitled “**Corporative Governance Practices in Family Owned Business 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 guidelines of supervisor Ramesh Kumar Paudel to submit the thesis for evaluation and viva-voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled “**Corporate Governance Practices in Family Owned Business in Nepal**” presented by Arun Sidgel candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

AC	:	Accountability
BOD	:	Board of Director
CEO	:	Chief Executive Officer
CG	:	CorporateGovernance
DEA	:	DataEnvelopment Analysis
FA	:	Fairness
IN	:	Independence
Ltd	:	Limited
OECD	:	Organization for Economic Cooperation and Development
RE	:	Responsibility
Sig	:	Significance
SMEs	:	Small and Medium Sized Enterprises
SPSS	:	StatisticalPackageforSocial Scientists
Std.	:	Standard
TR	:	Transparency

ABSTRACT

Corporate governance plays a crucial role in fostering public trust and confidence in family-owned businesses, which is vital for the effective functioning of the sector and the broader economy. This study explores how corporate governance influences the perceived performance of these businesses, focusing on five key governance factors: Transparency, Accountability, Responsibility, Independence, and Fairness. A qualitative approach was employed, with data collected through a self-administered survey distributed to a sample of 100 small and medium-sized family-owned enterprises (SMEs) using purposive sampling. The findings revealed that Transparency had the highest mean indicating its significant role in influencing perceived performance. Multiple regression analysis revealed that Transparency, Responsibility, Independence, and Fairness were significant predictors of perceived performance, while Accountability was not significantly related to perceived performance, as its p-value exceeded 0.05. These results underscore the importance of adopting strong corporate governance practices, particularly in the areas of Transparency and Independence, to enhance the performance of family-owned businesses. This research contributes valuable insights into the significance of corporate governance, especially within developing economies, and provides recommendations for policymakers to prioritize governance reforms focusing on Transparency, Independence, and Fairness. Practitioners are encouraged to integrate these dimensions into their organizational practices to boost business success.

Keywords: Corporate Governance, Family-Owned Businesses, Perceived Performance, Transparency, Accountability, Responsibility, Independence, Fairness, SMEs.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Family-owned businesses play a crucial role in Nepal's economy, much like in other nations. They not only contribute significantly in terms of numbers, revenues, and employment but also serve as key drivers of economic growth, prosperity, and social welfare. Although the majority of family businesses in Nepal tend to be small, with fewer than 20 employees, some larger family enterprises have emerged, dominating key sectors such as retail, agriculture, and hospitality. However, the bulk of family businesses operate as Small and Medium Enterprises (SMEs), which form the backbone of Nepal's economy, similar to many other developing countries. In Nepal, SMEs have shown remarkable resilience in the face of economic challenges, such as the 2015 earthquake and the COVID-19 pandemic. Their ability to adapt and survive during crises is attributed to several factors. SMEs typically have low levels of external debt, rely on local resources, and are often export-oriented, which helps cushion them against external shocks (Li et al., 2020). SMEs in Nepal play vital roles in various sectors, provide large-scale employment, foster local economic development, and encourage community empowerment. They are also essential in promoting innovation and maintaining balanced trade through export activities, particularly in handicrafts, garments, and agricultural products (Ghimire et al., 2022). Data from Nepal's Ministry of Industry, Commerce, and Supplies indicate that SMEs make up more than 90 percent of the total businesses in the country. These enterprises provide employment to a large portion of the workforce, especially in rural areas, and are integral to poverty reduction efforts. Despite this, the distribution of SMEs across Nepal is uneven, with most concentrated in urban areas, leaving rural regions underdeveloped. To bridge this gap, there is a growing need to improve the quality, competitiveness, and business competence of SMEs, especially as Nepal integrates more deeply into the South Asian market and explores international trade opportunities. The government has recognized the importance of SMEs and has taken steps to support their growth. A substantial portion of the budget is allocated to enhance the competitiveness of these businesses, with a focus on creating a favorable business climate and improving access to financial resources. In 2015, for example,

the Nepalese government initiated programs aimed at improving SMEs' access to credit, upgrading their technical capacities, and promoting entrepreneurship among youth and women. Research conducted by Nepal Rastra Bank (2020) shows that many SMEs in Nepal operate with minimal regulatory compliance. These businesses, often managed directly by their owners, lack clear divisions between ownership and management, leading to issues of accountability and transparency. Implementing good corporate governance practices has been highlighted as a potential solution to these challenges. Proper governance would not only ensure compliance with tax, labor, and environmental laws but also enhance the overall business environment by fostering trust among stakeholders and investors. The Nepalese National Governance Policy advocates for good corporate governance to promote transparency, accountability, responsibility, and fairness within businesses. The goals are to ensure long-term business sustainability, improve decision-making, and increase both social and environmental responsibility among business owners. By adhering to these principles, businesses can enhance their value for shareholders while also considering the interests of other stakeholders. Furthermore, strengthening corporate governance would increase Nepalese SMEs' competitiveness on a regional and global scale, which is essential for attracting foreign investment and driving economic growth.

In Nepal, there has been a growing awareness of the importance of corporate governance, particularly following economic downturns and crises that exposed weaknesses in business practices. The 2008 global financial crisis and subsequent economic reforms led to increased scrutiny of corporate governance in the country. Although significant progress has been made, there is still much room for improvement, especially in family-owned businesses where governance structures often remain informal and reliant on family networks. Dahal et al.(2023)emphasize the need to explore the relationship between family control and corporate governance structures, as well as the influence of different generations on governance mechanisms in Nepalese family businesses. It is critical to examine how the application of corporate governance principles in SMEs can foster corporate entrepreneurship and value creation, especially in developing economies like Nepal. Given the growing importance of family businesses in the country, ensuring that these enterprises implement good governance practices is essential for their long-term success and contribution to national development.

1.2 Problem Statement

Family-owned businesses form the backbone of many companies globally, and in Nepal, they remain a dominant force in the economy. These enterprises are heavily influenced by cultural values, traditions, and a desire to maintain family control, which affects corporate governance practices. In many Nepalese family businesses, boards of directors are either absent or composed entirely of family members, often future heirs or shareholders. This family-dominated structure can impact the objectivity of decision-making, with the interests of the family sometimes taking precedence over the company's financial health and sustainability (Dahal et al., 2023). In Nepal, small and medium enterprises (SMEs) are classified based on ownership structures, which include family-owned businesses, joint ventures, and partnerships. Family businesses, in particular, have distinct characteristics that set them apart from non-family enterprises, such as a lack of separation between ownership and management (Li et al., 2020). While some family-run enterprises in Nepal manage to integrate family values with business goals successfully, leveraging familial bonds for growth and sustainability, many face challenges such as conflicts of interest and internal rivalries, which are prevalent in family businesses globally (Umans et al., 2020).

In Nepalese family firms, the emotional and relational dynamics of the family significantly influence business management. Without formal corporate structures, many SMEs are vulnerable to issues like unchecked authority and inadequate governance systems. The dominance of family influence in decision-making can overshadow business needs, a common issue in family-run enterprises. Scholars have pointed out that family control makes these businesses unique, and even public corporations are often influenced by the personal dynamics of key individuals, including family relationships. Corporate governance in Nepalese family businesses involves ensuring transparency, accountability, responsibility, independence, and fairness. Achieving this balance requires clear role definitions among family members and adherence to governance principles, which are crucial for long-term business growth and competitiveness. Shareholders must align family values with business objectives and clarify governance roles to foster an effective and sustainable enterprise.

Nepalese SME struggle with issues related to access to finance, particularly due to the lack of proper bookkeeping and collateral to meet banking requirements. Financial institutions perceive many SMEs as high-risk borrowers, which limits their access to necessary funding. Furthermore, many SMEs in Nepal lack experience in managing credit and maintaining financial transparency, which makes it difficult for them to adopt sound business practices (Ghimire et al.,2022). Only a fraction of SMEs in Nepal have access to banking services, and many remain unregistered, do not pay taxes, and fail to implement proper wage systems. These issues pose significant challenges to achieving effective corporate governance in the SME sector.

For Nepalese SMEs, adopting corporate governance principles is crucial for their growth and competitiveness in both the local and international markets. Establishing proper internal controls and management systems, which are essential elements of corporate governance, can help address many of these challenges. Family-owned businesses, in particular, must find a balance between family influence and business rules, which can affect their overall development and governance. This research aims to analyze the implementation of corporate governance practices i.e. transparency, accountability, responsibility, independence, and fairness within Nepalese family businesses. It will assess how prepared these businesses are to adopt good governance principles and identify the challenges they face in doing so. By focusing on family businesses classified as SMEs, where ownership or management is concentrated within the family, the study seeks to evaluate the readiness of these enterprises to integrate good governance practices, thereby enhancing their sustainability and competitiveness in the long run.

The research addresses the following research questions:

- i. What is the current situation of transparency, accountability, responsibility, independency and fairness in family owned business?
- ii. How do transparency, accountability, responsibility, independence, and fairness relate to one another in influencing in family owned business?
- iii. Do transparency, accountability, responsibility, independency, and fairness significantly affect dependent variable?

1.3 Objectives of the Study

The general objective of the study is to investigate corporate governance practices in family-owned businesses. The specific objectives of the study are as follows

- i. To assess the current situation of transparency, accountability, responsibility, independency and fairness in family owned business.
- ii. To examine the relationship of (transparency, accountability, responsibility, independency and fairness).
- iii. To analyze the effect of independent variables (transparency, accountability, responsibility, independency and fairness) on dependent variable (perceived performance).

1.4 Hypotheses

This research focuses on five key dimensions identified from previous studies on corporate governance, which are considered the most significant. While some concepts are frequently repeated in research, others may have varying definitions depending on the study. Corporate governance is treated as the constant variable for the hypotheses, with five independent variables proposed. Based on prior research, the following dimensions of corporate governance: Transparency, Accountability, Responsibility, Independency, and Fairness are recognized as crucial factors influencing performance. The hypotheses to be tested in this study are:

H1: Transparency has a significant relationship with perceived performance.

H2: Accountability has a significant relationship with perceived performance.

H3: Responsibility has a significant relationship with perceived performance.

H4: Independence has a significant relationship with perceived performance.

H5: Fairness has a significant relationship with perceived performance.

1.5 Rationale of the Study

This study examines the corporate governance practices within Nepalese family-owned SMEs, focusing on principles such as transparency, accountability, responsibility, independence, and fairness. It investigates how family dynamics influence decision-making and whether these businesses effectively implement governance standards. The overlap between family and business interests often complicates governance, as personal relationships can overshadow objective business needs. Additionally, the research addresses critical challenges related to financial

management and access to credit. Many family businesses struggle to meet banking requirements due to inadequate bookkeeping and a lack of collateral, limiting their funding opportunities. The absence of proper financial oversight also results in tax evasion and poor wage practices, further complicating corporate governance efforts. Furthermore, the study evaluates the readiness of Nepalese family-owned businesses to adopt good governance practices. While some successfully merge family values with business goals, many still encounter internal conflicts and rivalries. This research aims to identify these challenges and offer strategies to help family-owned SMEs balance family influence with effective governance structures. By assessing the current state of corporate governance in these businesses, this study provides valuable insights for improving their sustainability and competitiveness, benefiting both the firms and the broader economy.

1.6 Limitations of the Study

This study on corporate governance practices in Nepalese family-owned businesses acknowledges several limitations that may affect the findings and their generalizability. First, the research focuses specifically on family-owned SMEs, which may not fully represent larger family businesses or non-family enterprises. The unique dynamics and governance challenges of larger firms or different business structures may lead to different outcomes and insights that this study does not capture. Second, the data collection relies heavily on self-reported information from business owners and managers. This may introduce bias, as respondents might present an overly favorable view of their governance practices or underreport challenges due to concerns about confidentiality or reputational risks. The subjective nature of self-reported data can limit the reliability of the findings. Third, the study primarily emphasizes qualitative aspects of corporate governance, which may not provide a comprehensive quantitative analysis of governance effectiveness or financial performance. The absence of quantitative metrics can restrict the ability to draw robust conclusions about the impact of governance practices on business outcomes. Additionally, the research context is limited to Nepal, where cultural, economic, and regulatory factors uniquely influence business operations. As a result, the findings may not be applicable to family-owned businesses in other countries with different governance frameworks or cultural backgrounds. Despite these limitations, the study

provides valuable insights into the current state of corporate governance in Nepalese family-owned businesses, serving as a foundation for future research in this area.

CHAPTER II

LITERATURE REVIEW

This chapter reviews existing literature on corporate governance practices in family owned businesses from available reports, articles, and online resources relevant to the study. It primarily relies on research and reports from national and international organizations, research institutes and scholars to provide a comprehensive understanding of these issues.

2.1 Conceptual Review

2.1.1 Corporate Governance Practices

The landscape of corporate governance in Nepal is evolving, particularly as the nation strives to enhance its economic framework and promote sustainable business practices. Corporate governance refers to the systems and processes by which companies are directed and controlled, focusing on the relationships among various stakeholders, including shareholders, management, the board of directors, and other parties involved in the business ecosystem (Sikandar & Mahmood, 2018). As a significant portion of the Nepalese economy consists of family-owned enterprises, understanding how governance principles apply to these businesses is crucial. Historically, corporate governance in Nepal faced numerous challenges. The absence of clear guidelines and consistent implementation practices often resulted in issues such as a lack of accountability, transparency, and ethical conduct among companies (Bista et al., 2019). Many businesses operated without formal governance structures, which exacerbated problems related to decision-making and conflict resolution. Consequently, the need for robust governance frameworks became apparent, especially as the country sought to integrate into the global economy and attract foreign investment.

The Government of Nepal has recognized the importance of establishing sound corporate governance practices across various sectors. By aligning local standards with international best practices, Nepal aims to foster a business environment characterized by integrity and transparency (Dahal et al., 2023). This initiative is particularly relevant for small and medium enterprises (SMEs), which play a vital role

in job creation and economic development in the country. Family-owned businesses are particularly prevalent in Nepal, often serving as the backbone of the local economy. These enterprises have unique characteristics that differentiate them from non-family businesses, such as a strong emphasis on family values, emotional ties, and a lack of separation between ownership and management. While these traits can foster a sense of loyalty and commitment, they can also lead to conflicts of interest and challenges in decision-making processes. In many Nepalese family businesses, governance structures are often informal, leading to potential pitfalls. The concentration of power within family members can stifle independent thinking and accountability. Decision-making processes may become influenced by personal relationships rather than objective assessments of business needs. For instance, when key family members dominate the board of directors, there is a risk that decisions may prioritize familial interests over the long-term sustainability of the business (Kharel, 2019). Despite these challenges, many family-owned enterprises in Nepal successfully integrate familial values with business objectives. They leverage their unique characteristics to foster growth and resilience. Research indicates that family businesses that implement sound corporate governance practices tend to outperform their non-family counterparts. Effective governance enables these enterprises to define clear roles and responsibilities, establish protocols for decision-making, and implement checks and balances to mitigate risks associated with concentrated power. The principles of corporate governance can be broadly categorized into several key areas (Goh, 2008):

Transparency: Transparency is essential for building trust among stakeholders. Companies should provide accessible, relevant information regarding their operations, financial performance, and strategic objectives. This openness not only promotes accountability but also enhances stakeholder engagement, fostering a culture of trust and collaboration.

Accountability: Establishing clear lines of accountability is critical for effective governance. Organizations must define roles and responsibilities within their management structures to ensure that individuals are answerable for their actions. This clarity is especially important in family-owned enterprises, where informal hierarchies can lead to confusion and ambiguity in decision-making.

Responsibility: Companies must comply with applicable laws and regulations, promoting ethical practices and corporate social responsibility. This involves making decisions that consider not only the financial bottom line but also the broader impact on society and the environment. Responsible governance ensures that businesses contribute positively to their communities while pursuing their objectives.

Independence: To foster effective decision-making, management should operate independently, free from undue influence from family members or other stakeholders. A balanced distribution of power within the governance structure can prevent conflicts of interest and promote objective assessments of business performance.

Fairness: Fairness in dealings with stakeholders is paramount. Companies should treat all stakeholders equitably, fulfilling their rights and responsibilities. This includes transparent recruitment processes, equitable compensation practices, and ethical interactions with customers, suppliers, and other partners.

Implementing these principles of corporate governance in Nepalese family businesses is essential for their long-term growth and sustainability. By embracing good governance practices, these enterprises can enhance their competitiveness, attract investment, and foster innovation. Additionally, effective governance can improve access to financing, as financial institutions are more likely to support businesses that demonstrate strong governance frameworks. The importance of corporate governance extends beyond individual businesses; it has broader implications for the entire economic landscape of Nepal. Strong governance practices can lead to improved market efficiency, increased investor confidence, and enhanced economic stability. As the country seeks to attract foreign investment and integrate into the global economy, establishing a reputation for sound corporate governance becomes crucial. Despite the progress being made, challenges remain (Sthapit, 2024). Many SMEs in Nepal still struggle with access to finance, often due to inadequate bookkeeping, lack of collateral, and insufficient experience in managing credit. Financial institutions may perceive these businesses as high-risk borrowers, limiting their access to necessary funding. Additionally, a significant number of SMEs operate without formal registration, do not comply with tax obligations, and fail to implement fair wage systems, further complicating the governance landscape. Addressing these challenges

requires a concerted effort from various stakeholders, including the government, financial institutions, and the business community (Acharya, 2018). Policymakers must work to create a conducive environment for SMEs by providing support, resources, and incentives for adopting sound governance practices. Financial institutions should develop tailored products and services to assist SMEs in meeting their financing needs while promoting good governance principles.

In conclusion, corporate governance is a critical aspect of the business environment in Nepal, particularly for family-owned enterprises that dominate the economy. By adopting transparent, accountable, responsible, independent, and fair practices, these businesses can enhance their competitiveness, contribute to economic development, and build trust among stakeholders. The ongoing evolution of corporate governance in Nepal represents an opportunity for businesses to align with international standards and promote sustainable growth in the face of emerging challenges. As the country continues to advance, fostering a culture of good corporate governance will be essential for realizing its economic potential.

2.1.2 Family Business and Non-Family Business

Family businesses play a crucial role in the economic landscape of many countries, characterized by their ownership and management being primarily in the hands of family members. This definition highlights the centrality of familial involvement in decision-making and operational processes. According to research conducted by Winter et al. (1998), family businesses rely heavily on the active participation of family members, which influences both the culture and strategic direction of the enterprise. Chua et al. (1999) provide a more nuanced definition, describing a family business as one that is governed or managed by a dominant coalition of family members. This coalition aims to sustain a particular vision for the business, often across multiple generations. Such a long-term perspective is a distinctive feature of family enterprises, as they typically prioritize legacy and continuity. Farrington (2014) adds another layer to this understanding by stating that a family business exists when at least 51% of the equity is held by a single family, and at least two family members occupy senior management roles. This structure often reinforces the family's control over the business, allowing for a cohesive strategy that aligns with familial values and objectives.

Despite the general consensus on these definitions, there is no universally accepted framework for defining family businesses. Scholars have identified three primary criteria when attempting to categorize such enterprises: the ownership structure, the perception of family members regarding the firm's identity as a family business, and the involvement of family members in management positions. This lack of consensus complicates efforts to study family businesses systematically, as variations in definition can lead to differing conclusions regarding their performance and challenges. In contrast to family businesses, non-family enterprises, particularly those backed by venture capital, have different operational dynamics. These firms typically receive investments from professional investors who collaborate with management due to the firm's potential for significant economic returns (Manigart & Sapienza., 2017). This relationship often allows for a more structured approach to governance and management, as investors bring in their expertise and expectations for performance. Family businesses are often seen as more established and mature compared to their venture capital-backed counterparts. The latter group tends to be younger, with a focus on rapid growth and scalability. This urgency necessitates a proactive approach to management, often prioritizing short-term planning and frequent assessments to capitalize on market opportunities. The management style in venture capital-backed firms is typically more agile, reflecting the need to adapt quickly to changing market conditions and investor expectations.

The differences between family and non-family businesses extend beyond ownership structures to encompass management styles, decision-making processes, and even corporate cultures. Family businesses often face unique challenges related to succession planning and the emotional dynamics that come with family involvement. Personal relationships can complicate governance structures, leading to conflicts that may affect the business's operational efficiency (Gulzar & Wang, 2010). In many cases, the overlap of family and business roles can create tensions that are not as prevalent in non-family firms. Non-family businesses, particularly those that rely on external funding, typically have a clearer delineation of roles and responsibilities. This separation can lead to more straightforward governance structures, as professional managers are held accountable to investors. The expectation for performance in these firms often focuses on rapid results, which can pressure management to prioritize short-term gains over long-term stability. Despite their

challenges, family businesses also enjoy unique advantages. The emotional commitment and loyalty of family members can enhance productivity and foster a strong organizational culture. These businesses are often deeply rooted in their communities, allowing them to build strong relationships with customers, suppliers, and other stakeholders. This local knowledge can provide family firms with competitive advantages, enabling them to navigate market dynamics more effectively. However, the emotional ties that bind family members can also be a double-edged sword. While they can enhance dedication and loyalty, these relationships can also complicate decision-making. Issues such as favoritism or conflicts of interest may arise, potentially hindering the company's performance. The absence of formal governance structures in many family businesses can exacerbate these challenges, making it difficult to implement necessary changes or strategies for growth. On the other hand, non-family firms often benefit from a more structured approach to management. The presence of external investors introduces a layer of accountability that can drive performance and innovation. However, this focus on immediate results can sometimes lead to a short-sighted approach that neglects the foundational aspects of the business that contribute to long-term success. In conclusion, while family businesses and non-family businesses serve vital roles in the economy, their dynamics and challenges differ significantly (El-Kassar et al., 2018). Family businesses are characterized by their ownership and management being closely held within a family, fostering strong emotional ties and commitment. However, these advantages come with challenges related to governance, succession, and the interplay of personal relationships. Conversely, non-family businesses, particularly those backed by venture capital, exhibit a more structured approach to management and governance but may prioritize short-term results over long-term stability. Understanding these differences is essential for stakeholders interested in the dynamics of various business types and their contributions to the economy. The interplay between family involvement and professional management continues to shape the landscape of business today, influencing performance, governance, and long-term sustainability.

2.1.3 Small Medium Enterprises in Nepal

Small and Medium Enterprises (SMEs) play a crucial role in the economic framework of Nepal, significantly contributing to the nation's growth and development. As of recent years, SMEs have become a vital component of the economy, accounting for

approximately 22.4% of the country's GDP (NEF, 2020). These enterprises not only provide employment opportunities but also serve as a primary source of income for many households, particularly in rural and semi-urban areas. In Nepal, SMEs cater to the needs of lower and middle-income groups, supplying essential goods and services that are pivotal for daily living. According to MOICS (2021), SMEs employ around 80% of the total industrial workforce, which translates to nearly 1.5 million individuals. This statistic highlights the critical role of SMEs in job creation and economic stability, as many Nepalese rely on these enterprises for their livelihoods. By producing a wide array of products, from handicrafts to food items, SMEs contribute significantly to local economies and help reduce poverty. Despite their substantial contributions, SMEs in Nepal encounter several challenges that hinder their growth potential. One of the primary barriers is access to finance. Around 80% of SMEs in Nepal lack access to formal financial services, which limits their ability to invest in expansion and development (IFC, 2017). Furthermore, many SMEs struggle to meet the stringent collateral requirements set by banks, making it difficult to secure loans. The lack of financial literacy among SME owners also exacerbates the situation, as many are unaware of available financing options and how to effectively manage their financial resources.

Additionally, the regulatory environment in Nepal can be cumbersome for SMEs. Complex bureaucratic processes often delay business registrations and licensing, dissuading potential entrepreneurs from starting their ventures. Streamlining these processes and providing a more supportive regulatory framework is essential for the growth of SMEs. Moreover, SMEs in Nepal face infrastructural challenges that impede their operations. Many SMEs are located in rural areas where transportation and logistics are underdeveloped. The lack of reliable infrastructure affects the supply chain, leading to increased operational costs and delays in delivering goods to market. During the COVID-19 pandemic, for example, SMEs showcased their ability to pivot and innovate. Many businesses shifted to online platforms to reach customers, thereby mitigating the impact of lockdowns and restrictions. This adaptability illustrates the potential of SMEs to contribute to economic recovery and growth, particularly when supported by appropriate policies and initiatives. Family businesses constitute a significant portion of the SME sector in Nepal. These enterprises are often governed by family members, which introduces a unique set of dynamics. According to a study

by Chua et al. (1999), family businesses are defined as those in which a dominant coalition of family members controls the business, aiming to sustain its vision across generations. In Nepal, family-run businesses play a critical role in the economy, contributing to job creation and innovation. However, governance issues in family firms can be more complex than in non-family businesses due to the intertwining of family dynamics with business operations. As noted by Farrington (2014), the involvement of family members in management and ownership can lead to unique challenges, including conflicts of interest and succession planning difficulties. Effective governance structures are crucial for ensuring the long-term viability of family businesses. Clear roles and responsibilities, along with transparent decision-making processes, can help mitigate potential conflicts and enhance business performance. The government of Nepal recognizes the importance of SMEs and has implemented various policies to promote their growth. The “Small and Medium Enterprises Development Strategy” aims to create an enabling environment for SMEs through access to finance, capacity building, and market development. Additionally, the government has introduced initiatives to enhance the skills of SME owners and workers, thereby increasing their competitiveness in both local and international markets. In conclusion, SMEs are essential to the economic development of Nepal, providing significant contributions to GDP and employment. Despite facing challenges related to access to finance, regulatory hurdles, and infrastructure, SMEs continue to demonstrate resilience and adaptability. Family businesses, which make up a substantial portion of the SME sector, contribute uniquely to the economy but require effective governance structures to thrive. The government’s ongoing efforts to support SMEs through policies and initiatives are crucial for fostering a conducive environment for their growth, enabling them to play a more prominent role in the country’s economic landscape. By addressing the challenges faced by SMEs, Nepal can harness their potential to drive economic growth, create jobs, and enhance the overall quality of life for its citizens.

2.1.4 Registration of SMEs in Nepal

In Nepal, Small and Medium Enterprises (SMEs) are registered under specific legal frameworks based on the business's size and structure. The two primary acts governing SME registration are the Private Firm Registration Act, 1958, and the

Companies Act, 2006, with additional support provided by the Industrial Enterprises Act, 2020.

Private Firm Registration Act, 1958

This act is designed for sole proprietorships, making it ideal for small-scale businesses owned and operated by a single individual. Registration under this act requires submitting documents such as the owner's citizenship certificate, proof of business address, and a completed registration form to the District Administration Office (DAO). Businesses like retail shops, service providers, and consultancies typically fall under this category.

Companies Act, 2006

For SMEs looking to grow and operate with multiple stakeholders, the Companies Act, 2006, provides the necessary legal framework. This act governs the registration and operation of private and public limited companies. A private limited company, for instance, requires a minimum of one and a maximum of 50 shareholders. The registration process involves obtaining name approval from the Office of the Company Registrar (OCR) and submitting essential documents, including the Memorandum of Association (MOA) and Articles of Association (AOA). This structure provides limited liability protection for shareholders and ensures the business operates as a separate legal entity.

Industrial Enterprises Act, 2020

The Industrial Enterprises Act, 2020, complements the above frameworks by offering policies and incentives specifically designed for micro, small, and medium enterprises (MSMEs). It classifies businesses based on their investment levels: micro-enterprises (investment up to NPR 1 million), small enterprises (NPR 1–50 million), and medium enterprises (NPR 50–250 million). This act encourages innovation, sustainable practices, and entrepreneurship while providing tax benefits and other concessions to promote SME growth.

2.2 Empirical Review

An empirical review involves a thorough examination and analysis of existing research studies, experiments, or observations that provide concrete data or evidence

on a particular topic or research question. This process entails synthesizing and assessing the results, methods, and conclusions of previous studies to support and guide new research. By reviewing past empirical work, researchers can gain insights into what has already been explored, identify gaps in current knowledge, and build upon existing evidence to either offer new perspectives or validate existing theories. The following research studies highlight various aspects of this approach.

The discussion around corporate governance in family-owned businesses has gained significant attention, particularly as these firms face growing global challenges. One influential study in this area is by Gulzar and Wang (2010), who explored corporate governance in non-listed family-owned businesses in Pakistan. Their research highlighted the importance of transparent governance structures to meet the demands of various stakeholders, ensuring the sustainability of family businesses. The study found that businesses with transparent governance mechanisms had a positive correlation between governance quality and business sustainability. Specifically, the coefficient for governance transparency and business sustainability was 0.30, indicating that for each unit increase in governance transparency, business sustainability improved by 30 percent. The mean for business sustainability among companies with effective governance practices was 4.2/5, with a standard deviation of 0.5, suggesting a consistent trend across firms.

Similarly, Farrington (2014) conducted a comparative study on entrepreneurial orientation between family-owned and non-family businesses in South Africa. His research revealed that family-owned businesses tended to centralize decision-making, contrasting with the more decentralized structures of non-family businesses. Farrington found a coefficient of -0.15 for the relationship between centralized decision-making and entrepreneurial innovation, indicating that family businesses with more centralized governance structures were less likely to innovate. The mean for innovation in family businesses was 3.6/5, with a standard deviation of 0.7, showing more variability in innovation levels compared to non-family firms.

In Nepal, Acharya (2018) studied the impact of corporate governance practices on the performance of commercial banks, particularly those with family ownership structures. His research emphasized that strong governance structures promoted

economic growth and financial stability, leading to an increase in both local and foreign investment. The study reported a coefficient of 0.45, meaning that better governance practices led to a 45 percent increase in investment attraction. The mean for investment attraction was 4.4/5, with a standard deviation of 0.6, reflecting a fairly consistent relationship between governance quality and investment across the sector.

Expanding the geographical scope, Sikandar and Mahmood (2018) studied family-owned firms listed on the Pakistan Stock Exchange, focusing on those in the cement industry. Their research found a positive relationship between governance factors such as board size and composition and firm value. The coefficient for board size and firm value was 0.35, meaning that larger and more diversified boards were associated with a 35 percent increase in firm value. The mean for firm value was 7.8/10, with a standard deviation of 1.2, indicating moderate variability in firm performance among companies with robust governance structures.

In Nepal, Bista et al. (2019) explored the relationship between corporate governance and dividend policies in family-owned enterprises, including commercial banks and insurance companies. Their findings revealed that governance factors, such as ownership structure and liquidity, had a significant impact on dividend decision-making. The study reported a coefficient of 0.40, suggesting that companies with more structured ownership models experienced a 40 percent increase in dividend payouts. The mean for dividend payout was 3.5/5, with a standard deviation of 0.8, showing a relatively wide range of dividend practices among family-owned firms.

Kharel (2019) critically examined transparency and accountability in Nepal's corporate sector, with a particular focus on family businesses. His research emphasized the need for effective governance structures to build trust and ethical practices. Kharel found a coefficient of 0.20 for the relationship between transparency and organizational performance, indicating that improved transparency was linked to a 20 percent increase in business outcomes. The mean for organizational performance was 4.1/5, with a standard deviation of 0.9, showing some variability in performance across family-owned businesses in Nepal.

The global discourse on family business governance was further enriched by Li et al. (2020), who conducted a meta-analysis of 137 research papers on governance in family firms. Their study identified significant gaps in understanding the relationship between governance mechanisms and firm outcomes, particularly in entrepreneurial contexts. They called for more innovative theories and methodologies to explore the dynamic nature of governance in family businesses. While specific coefficients were not reported, the study emphasized the need for continued exploration to address these gaps in the literature.

Umans et al. (2020) offered a unique perspective by examining succession planning in family businesses. Their study highlighted the role of both family and business governance practices in shaping the succession process. They found that the emotional reluctance of family CEOs to give up control significantly impacted succession, with a coefficient of -0.25 for the relationship between CEO reluctance and leadership transitions. The mean for successful leadership transitions in family businesses was 3.9/5, with a standard deviation of 0.6, reflecting a consistent but challenging process in managing leadership transitions.

In the context of small businesses, Ghimire et al. (2022) studied family-owned businesses around the Pashupatinath Temple in Nepal. Their research showed that well-governed businesses contributed significantly to the local economy and the livelihoods of their owners. Using logistic regression models, they found a coefficient of 0.38, indicating that businesses with better governance practices experienced a 38 percent increase in business success. The mean for business success was 4.5/5, with a standard deviation of 0.4, indicating relatively high levels of success in well-governed family businesses.

In Nepal's telecommunications sector, Dahal et al. (2023) examined the influence of corporate governance on the performance of firms such as Ncell and Nepal Telecom. They found a coefficient of 0.50, suggesting that effective governance structures led to a 50 percent improvement in performance. The mean for organizational performance was 4.7/5, with a standard deviation of 0.5, indicating consistent positive outcomes resulting from effective governance practices in the sector.

Finally, Sthapit (2024) conducted a comparative analysis of corporate governance practices in India and Nepal. His study highlighted the progress made in both countries but noted that India had advanced further due to more extensive experience with financial regulations and trust-building initiatives. The coefficient for governance progress and investor trust was 0.55, meaning that improved governance led to a 55 percent increase in investor trust. The mean for governance progress in India was 4.8/5, while Nepal had a mean of 3.6/5, with a standard deviation of 0.7, showing that Nepal still faces significant challenges in strengthening its governance structures.

These studies demonstrate the critical role corporate governance plays in the success and sustainability of family-owned businesses. The statistical values, such as coefficients, means, and standard deviations, provide a clearer understanding of the impact governance practices have on various business outcomes, highlighting the need for continual improvement and adaptation in governance practices to ensure long-term success.

2.3 Research Gap

The exploration of corporate governance in family-owned small and medium-sized enterprises (SMEs) in Nepal presents a critical research gap, particularly concerning the application of governance principles and the unique challenges these businesses face. While existing literature has identified the importance of corporate governance in enhancing performance and sustainability, there remains a lack of focused studies examining its implementation specifically within Nepalese family-owned SMEs. The current body of research, such as the works of Acharya (2018) and Dahal et al. (2023), predominantly targets larger enterprises or different sectors, leaving a significant void in understanding how governance practices can be effectively tailored to the nuances of family-run SMEs. Furthermore, the existing studies have not sufficiently addressed the impact of family control on governance and decision-making processes. This oversight is critical, as family dynamics often influence governance structures, creating a need for in-depth exploration of how familial relationships and emotional factors shape governance outcomes. Research by Umans et al. (2020) suggests that emotional considerations play a vital role in family businesses, yet the implications for governance remain under-explored in the context

of Nepalese SMEs. Additionally, the readiness of family-owned SMEs to adopt corporate governance practices for long-term sustainability has not been adequately assessed. While Kharel (2019) emphasizes the importance of transparency and accountability, there is a lack of empirical evidence regarding how prepared these businesses are to implement such frameworks effectively. Addressing this gap is crucial for developing actionable strategies that can enhance the governance capacity of family-owned SMEs in Nepal, ensuring their growth and contribution to the economy in a sustainable manner.

CHAPTER III

RESEARCH METHODOLOGY

This chapter offers a comprehensive overview of the study's methodology, the data collection methods used, and the analytical techniques applied. It specifies the types and sources of data gathered and explains the sampling approach employed. The chapter describes the systematic process of data collection and outlines how the data were analyzed using statistical methods to address the research questions and fulfill the study's objectives.

3.1 Research Design

This study used a descriptive and quantitative research design to examine the implementation of corporate governance in family-owned SMEs. The design allowed for a detailed analysis of the characteristics of respondents and the evaluation of governance practices using statistical methods. Quantitative data were gathered through structured questionnaires, enabling a thorough investigation of the relationships between governance practices and business performance. The research focused on family-owned SMEs in the Kathmandu region, a significant economic hub for small and medium enterprises in Nepal. This region was selected because it has a diverse range of businesses involved in both goods and services, making it an ideal location to assess corporate governance practices within family-owned SMEs.

3.2 Population & Sample and Sampling Design

The study focused on family-owned small and medium-sized enterprises (SMEs) in Kathmandu. According to the MICS (2021), there are 159,568 SMEs registered in Bagmati Province, with 41,478 of them based in Kathmandu. A purposive sampling method was employed to select 100 SMEs that met specific criteria, such as family ownership and business size, ensuring the sample accurately represented the target area.

3.3 Nature and Sources of Data and the Instrument of Data Collection

Primary data were collected through questionnaires and interviews, focusing on governance practices, decision-making, and business characteristics within family-

owned businesses. The questionnaires were designed to capture various aspects of governance, including the roles and responsibilities of family members, the influence of family dynamics on decision-making, and the governance structures in place. Interviews with key stakeholders, such as family business owners, executives, and board members, provided deeper insights into how these businesses navigate governance challenges, manage succession planning, and balance family interests with business growth. This data helped to gain a comprehensive understanding of corporate governance practices specific to family-owned businesses. Data collection involved distributing questionnaires tested for validity as research instruments. Interviews were conducted using a structured list of pre-determined questions to gather in-depth information. Observations were also made to support the findings from interviews, following a structured process. The questionnaire included items on respondent characteristics, business characteristics, and the implementation of good corporate governance, using a 5-point interval scale from 1 (strongly disagree) to 5 (strongly agree).

3.4 Method of Analysis

This section outlines the methods employed to analyze data in Chapter 4. In order to draw meaningful conclusions and apply the findings, it is essential to follow a structured approach when analyzing data. The analysis begins with the examination of primary data using SPSS software. The data, collected through questionnaires from organizations in the service sector, focuses on understanding the relationship between internal communication climate and employee engagement. The responses gathered were coded and organized into an SPSS worksheet for analysis. To assess the reliability of the scale items, Cronbach's alpha coefficient was applied. For data entry and basic analysis, MS-Excel was used. Descriptive statistics such as frequency counts, percentages, means, and standard deviations were primarily used for analyzing corporate governance in family-owned businesses. Descriptive analysis was conducted using graphs, tables, pie charts, mean, standard deviation, and percentage distribution. The hypothesis testing involved using tables, mean, standard deviation, Pearson's correlation, and linear regression

Descriptive Analysis

Descriptive statistics serve as the foundational step in our data analysis. This phase includes calculating and interpreting the mean and standard deviation. The mean is commonly referred to as the average, calculated by dividing the sum of all values by the number of values. It represents the central tendency of a variable. The standard deviation (S.D.) is a widely used measure of the dispersion of data points. It indicates how much individual data points deviate from the mean. A higher standard deviation implies greater variability, while a lower value indicates less variability. The standard deviation is the square root of the average squared deviations from the mean.

Correlation Analysis

Correlation is an essential statistical measure that evaluates the degree to which two or more variables are related. Pearson Correlation analysis is employed to examine the relationship between various independent and dependent variables in the study. It measures the strength and direction of the linear relationship between two variables. This analysis was applied to variables with multiple response options. A correlation matrix was generated to evaluate the degree of association between the research variables. A positive correlation indicates that as one variable increases, the other tends to increase as well. On the other hand, a negative correlation shows an inverse relationship, where one variable increase while the other decreases. The Pearson Correlation Coefficient (r) is then calculated using the formula:

$$r = \frac{n\sum xy - \sum x \cdot \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

Where,

r = correlation coefficient

n= number of sample.

x= values of the independent variables.

y = values of the dependent variables.

$\sum xy$ = sum of the products of corresponding x and y values.

$\sum x$ and $\sum y$ = sums of all x and y values, respectively.

$\sum x^2$ and $\sum y^2$ = sums of the squares of all x and y values, respectively.

The resulting r ranges between -1 and +1, where values closer to these extremes indicate stronger correlations. A positive r indicates a positive linear relationship (as x increases, y also tends to increase), while a negative r indicates a negative linear

relationship (as x increases, y tends to decrease). A r value of 0 indicates no linear relationship between the variables. To determine the statistical significance of r, it is compared to critical values or a significance level (typically $\alpha=0.05$) is used to assess the p-value. It's important to note that while correlation measures the strength and direction of association between variables.

Regression Analysis

Regression analysis helps in determining the statistical relationship between variables, where changes in the dependent variable are linked to changes in one or more independent variables. Multiple regression analysis, in particular, allows the assessment of how various factors collectively influence an outcome. This method is useful for forecasting the effects of changes and estimating the impact of independent variables on a dependent variable. The main objective of multiple regression analysis is to better understand the relationship between several independent or predictor variables and a dependent or outcome variable. In statistical modeling, regression analysis serves as a method for estimating relationships among variables, allowing for the analysis of how multiple factors influence one another. This technique is particularly useful when studying the link between one dependent variable and one or more independent variables. While correlation analysis can identify whether a strong relationship exists between two variables, it cannot provide detailed information about the specific nature of that relationship. Even if a correlation coefficient suggests a strong relationship, regression analysis can offer additional insights, such as the slope and direction of the relationship.

In this context, regression analysis is employed to gain a deeper understanding of how the internal communication climate influences employee engagement. This analysis helps identify which independent variables contribute to explaining variability in the dependent variable, how much of the dependent variable's variation is accounted for by the independent variables, and which variables are the most significant in explaining this variability. Multiple regression was applied to assess the impact of the independent variables—Transparency, Accountability, Responsibility, Independence, and Fairness—on the dependent variable, Perceived Performance. Multiple linear regression was used to predict how these independent variables affect perceived

performance. The regression equation for the impact of the independent variables on perceived performance is as follows:

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

Where:

\hat{Y} = Perceived Performance (dependent variable)

X_1 = Transparency

X_2 = Accountability

X_3 = Responsibility

X_4 = Independence

X_5 = Fairness

α = Constant

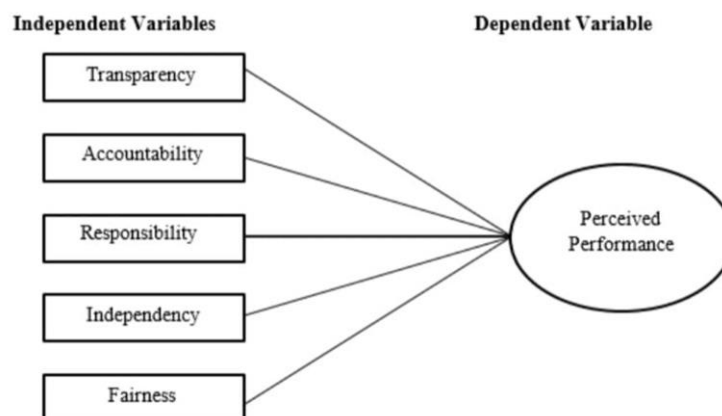
$\beta_1, \beta_2, \dots, \beta_5$ = Regression coefficients for each factor (1 to 5)

3.5 Research Framework Definition of Variables

Figure 1 illustrates the research framework of this study, highlighting the various elements that influence corporate governance. In this model, perceived performance is considered the dependent variable, while Transparency, Responsibility, Independency, Fairness, and Accountability are identified as key factors that contribute to the measurement of corporate governance. These factors are treated as independent and construct variables. The figure below provides a visual representation of the factors that underpin the research question of this study

Figure 1

Research Framework



Source: Goh(2008)

Definition of Study Variables

Independent Variables

Transparency: Transparency plays a central role in building trust and ensuring accountability within an organization. For family-owned businesses, transparency means providing stakeholders with access to relevant and accurate information about operations, financial performance, and strategic objectives (Krause, 2018). Transparent practices are crucial in fostering positive relationships with key stakeholders, such as employees, investors, customers, and the community, as they ensure that all parties are informed and engaged (Bammens, Voordeckers, & Van Gils, 2011). Moreover, transparent practices help in mitigating risks related to miscommunication, unethical behavior, and financial mismanagement, which can be prevalent in businesses with less formal governance structures (Lubatkin, Schulze, & Hu, 2008).

Accountability: Accountability is equally vital for maintaining a structured and effective governance framework, particularly in family-owned businesses where informal structures can blur the lines of responsibility (Farrington, 2014). Family businesses often suffer from ambiguous decision-making hierarchies, where family members may have overlapping roles and responsibilities, leading to inefficiencies (Chua, Chrisman, & Sharma, 2003). To address this, clearly defining roles and responsibilities within the organization is essential. Establishing formal accountability measures, such as performance evaluations and clear reporting lines, helps ensure that managers and family members are answerable for their actions, which ultimately drives the business toward better performance and sustainability (Fama & Jensen, 1983).

Responsibility: Responsibility in governance extends beyond legal compliance and financial goals to encompass social and environmental considerations. Family-owned businesses, often deeply embedded in their communities, must act as responsible corporate citizens (Dyer & Whetten, 2006). This involves making decisions that balance profit motives with broader social and environmental impacts (Astrachan & Shanker, 2003). According to Adams et al. (2009), responsible governance requires business owners to adhere to ethical practices and promote

corporate social responsibility (CSR), ensuring that the firm contributes positively to its stakeholders and society as a whole.

Independence: Independence is a fundamental principle of corporate governance, ensuring that decision-making processes are objective and free from undue influence. In family-owned businesses, the influence of family members can sometimes lead to conflicts of interest that affect managerial independence (Chrisman et al., 2015). For this reason, it is essential for family firms to separate ownership and management functions, allowing independent decision-making (Astrachan&Shanker, 2003). By involving non-family members in governance, whether on the board of directors or in advisory roles, family businesses can enhance objectivity, reduce the potential for nepotism, and foster sound business decisions that align with long-term goals (Sharma &Nordqvist, 2008).

Fairness: Fairness in corporate governance ensures that all stakeholders are treated equitably and their rights are respected. In family-owned businesses, fairness can sometimes be compromised when family interests outweigh those of other stakeholders (Bammens, Voordeckers, & Van Gils, 2011). Fair practices in recruitment, compensation, and stakeholder engagement promote an ethical corporate culture and create an inclusive environment that benefits both family and non-family employees (Habbershon& Williams, 1999). Fair treatment also improves loyalty, productivity, and satisfaction, especially when stakeholders feel that their contributions and needs are respected and acknowledged (Le Breton-Miller et al., 2004).

Dependent Variable

Perceived performance: Perceived performance refers to how individuals or stakeholders evaluate the effectiveness and outcomes of an organization based on their experiences and expectations, often combining both financial and non-financial dimensions. Recent studies highlight that perceived performance is influenced by factors such as governance quality, transparency, and accountability. For example, Hassan et al. (2020) found that effective corporate governance mechanisms, including clear accountability and transparency, significantly enhance perceived organizational performance. Similarly, Chung et al. (2020) emphasized that good governance

practices positively shape stakeholders' perceptions of an organization's success, both in terms of financial results and ethical conduct. Al-Sahouly et al. (2021) further confirmed that companies with strong governance structures are more likely to be viewed favorably by stakeholders, which directly impacts their perceived performance. These studies underscore that perceived performance is not just about objective results but is shaped by the governance practices that inspire confidence and trust among stakeholder

CHAPTER IV

RESULTS AND DISCUSSION

This chapter focuses on presenting the findings of the study. To meet the study's objectives, various analytical methods, including descriptive statistics, Pearson correlation coefficients, and regression analysis, were used to process the primary data. The results derived from these analyses are discussed in detail within the following sections. The primary purpose of this chapter is to systematically present, interpret, and analyze the collected data to evaluate corporate governance practices in family-owned businesses.

4.1 Results

4.1.1 Reliability Test

To assess whether the items in the questionnaire effectively measure the variables under investigation, a Cronbach's Alpha (α) reliability test was conducted on a sample of 200 items. This test was used to evaluate the quality and consistency of the survey.

Table 1

Reliability Test

S.N.	Variables	Cronbach's alpha	Noofitem(N)
1	Transparency	0.966	5
2	Accountability	0.886	5
3	Responsibility	0.972	5
4	Independence	0.929	5
5	Fairness	0.954	5
6	Perceived Performance	0.958	5

Table 1 presents the reliability test results for both dependent and independent variables. The table shows Cronbach's Alpha values for each variable along with the number of items used to measure them. The Cronbach's Alpha values above 0.7 indicate a high level of internal consistency, suggesting that the items within each variable are reliable. Specifically, the variables of Transparency, Responsibility, and Perceived Performance show very high reliability, with alpha values ranging from

0.958 to 0.972. The Accountability, Independence and Fairness variables also demonstrate good reliability, with alpha values between 0.886 and 0.954. In total, each variable was assessed using 5 items, ensuring a comprehensive evaluation of each factor.

4.1.2 Respondent’s Profile (Business Characteristics)

This section provides an overview of the key characteristics of the 100 small and medium-sized enterprises (SMEs) included in the study. This section examines important factors such as business registration status, the education level of the business owners, the length of time the businesses have been operating, and the industry sectors to which these businesses belong. Additionally, it explores the number of employees, annual income, family involvement, and business structure. By analyzing these characteristics, the study aims to provide a clear understanding of the typical profile of SMEs in the Kathmandu Valley, helping to contextualize the findings and assess the relationship between internal business characteristics and performance outcomes.

Table 2

Distribution of Respondents’ Profile (Business Characteristics)

Profile	Frequency	Percent
Business Registration		
Registered (Yes)	100	100
Not Registered (No)	0	0
Total	100	100
Education Level		
School Level	11	11
Intermediate Level	15	15
Bachelor’s Level	53	53
Other (Master’s)	21	21
Total	100	100
Business Duration		
Less than 3 years	18	18
3-5 years	50	50

More than 5 years	32	32
Total	100	100
Industry Sector		
General Service	22	22
General Trading	28	28
Culinary Sector	15	15
General Industry	17	17
Other (Retail &Tech)	8	8
Total	100	100
Number of Employees		
Less than 10 employees	23	23
10-20 employees	52	52
More than 20 employees	25	25
Total	100	100
Yearly Income		
Less than Rs. 2 Million	10	10
Rs. 2-5 Million	32	32
Rs. 5-10 Million	47	47
More than Rs. 10 Million	11	11
Total	100	100
Family Members Involved		
Less than 2 family members	27	27
3-5 family members	73	73
Total	100	100
Annual Meetings		
0-2 times per year	23	23
More than 2 times per year	77	77
Total	100	100
Separation of Structure		
Yes	82	82
No	18	18
Total	100	100

Source:FieldSurvey,2024

Table 4.2 presents a detailed overview of the business characteristics of 100 small and medium-sized enterprises (SMEs). All businesses in the sample are officially registered, meeting the study's requirement. In terms of education, the majority of business owners hold a Bachelor's degree (53 percent), with a significant portion (21 percent) holding a Master's degree. A smaller percentage has intermediate-level education (15 percent) or school-level education (11 percent). This suggests that many of the business owners have a strong educational background, which could contribute to their business acumen. Regarding business duration, half of the businesses (50 percent) have been operating for 3-5 years, while 32 percent have been running for over 5 years, indicating that most businesses are relatively established. Only 18 percent are less than 3 years old, reflecting a mix of new and seasoned enterprises. In terms of industry sectors, General Trading is the most common (28 percent), followed by General Service (22 percent) and General Industry (17 percent). Smaller proportions are involved in the Culinary Sector (15 percent) and niche sectors like Retail and Technology (8 percent). When it comes to business size, 52 percent of businesses employ between 10 and 20 people, with 23 percent employing fewer than 10 and 25 percent employing more than 20. This shows that the majority of businesses fall within the small to mid-sized range in terms of workforce. As for yearly income, the largest group (47 percent) earns between Rs. 5-10 Million, with 32 percent earning between Rs. 2-5 Million. A smaller portion earns over Rs. 10 Million (11 percent), while 10 percent earn less than Rs. 2 Million, indicating a broad income distribution.

Family involvement is significant, with 73 percent of businesses involving 3-5 family members in operations. This underscores the family-oriented nature of these SMEs. However, some businesses (27 percent) involve fewer than 2 family members. In terms of business management, 77 percent of businesses hold more than two meetings per year, suggesting a high level of engagement and active management, while 23 percent hold fewer meetings. Finally, the majority (82 percent) of businesses maintain a clear separation between family and business operations, indicating a professional approach to management, though 18 percent integrate family roles directly into the business structure. In conclusion, the table highlights the diversity of SMEs in terms of size, industry, income, and management structure. It also emphasizes the important

role of family in these businesses, with many adopting structured, active, and well-organized management practices.

4.1.3 Descriptive Analysis

Descriptive analysis provides a comprehensive summary of the dataset by analyzing its central tendency, dispersion, and distribution. In this study, measures such as mean, median, and mode were used to assess the typical values of the variables, while standard deviation and variance helped determine the extent of variability within the data. Additionally, minimum and maximum values were examined to understand the range of responses. Frequency distributions were used for categorical variables to highlight the prevalence of different responses. These statistical measures offer valuable insights into the dataset's overall patterns, allowing for a better understanding of the characteristics and trends within the research variables. This analysis ensures that the data is effectively summarized before conducting further inferential statistical tests.

Transparency

Transparency is a fundamental aspect of corporate governance that enhances trust, accountability, and ethical business practices. It refers to the open and clear disclosure of relevant information, ensuring that stakeholders have access to accurate and timely data about a company's operations, financial status, and decision-making processes. In today's business environment, transparency plays a crucial role in building investor confidence, strengthening stakeholder relationships, and fostering long-term sustainability. Companies that prioritize transparency demonstrate their commitment to ethical standards by regularly sharing financial reports, sustainability practices, and operational evaluations. By maintaining open communication and providing detailed disclosures, organizations can mitigate risks, enhance corporate reputation, and improve overall efficiency. Effective transparency practices not only help businesses comply with regulatory requirements but also create a culture of trust and integrity, ultimately leading to improved organizational performance and stakeholder engagement.

Table 3

Descriptive Statistics of Transparency

Variable	N	Min	Max	Mean	Std. Deviation	Mean Difference	p-value
The company's financial and non-financial reports are reported on a regular basis.	100	1	5	3.76	.964	.755	.000
The company's financial statement is reported in detail (Profit & Loss, Ledger, Cash Flow).	100	2	5	3.72	.888	0.715	.000
The company holds evaluation meetings on a regular basis.	100	3	5	4.16	.619	1.155	.000
The company discloses the internal salary system to employees.	100	3	5	4.08	.704	1.08	.000
The company provides clear and detailed reports on sustainability practices and goals.	100	3	5	4.12	.881	1.115	.000
				Average	Average		
N = 100				ge	Std.		
Test value=3				Mean	Deviation		
				= 3.96	= 0.858		

Source:FieldSurvey,2024

Table 3 presents the descriptive statistics for transparency-related variables based on responses from 100 participants. The table shows the minimum (Min), maximum (Max), mean, standard deviation (Std. Deviation), mean difference, and p-value for each item.

The highest mean value is 4.16 for the statement "The company holds evaluation meetings on a regular basis," with a relatively low standard deviation of 0.619, indicating strong agreement and consistency among respondents. Similarly, the statement "The company provides clear and detailed reports on sustainability practices and goals" also has a high mean of 4.12, with a standard deviation of 0.881, suggesting substantial agreement with this statement as well. The lowest mean score is 3.72 for "The company's financial statement is reported in detail (Profit & Loss, Ledger, Cash Flow)," with a standard deviation of 0.888, indicating moderate agreement among respondents. Overall, the average mean for all transparency-related items is 3.96, with an average standard deviation of 0.858, suggesting that respondents generally perceive the company's transparency to be above average, though with some variation in responses. The p-values for all variables are less than 0.05, indicating that the mean values for all items are statistically significant, further reinforcing the reliability of the transparency perceptions among the participants.

Accountability

Accountability is a cornerstone of good corporate governance, ensuring that organizations take responsibility for their actions, decisions, and policies. It involves the establishment of clear guidelines, ethical standards, and mechanisms that hold individuals and entities answerable for their performance. A well-defined accountability framework enhances trust among stakeholders, fosters ethical behavior, and improves organizational efficiency. Companies that prioritize accountability often implement written codes of conduct, standard operating procedures, and transparent reporting structures to reinforce responsibility at all levels. Additionally, a structured reward and punishment system plays a crucial role in maintaining fairness and motivating employees to adhere to corporate policies. When accountability measures are strong, businesses are more likely to achieve sustainability, reduce risks, and enhance overall performance. However, inconsistencies in accountability practices, such as unclear policies or weak enforcement mechanisms, can lead to inefficiencies and a lack of trust among stakeholders. Therefore, fostering a culture of accountability is essential for long-term corporate success and ethical business operations.

Table 4

Descriptive Statistics of Accountability

Variable	N	Min	Max	Mean	Std. Deviation	Mean difference	p-value
The company has a separate managerial structure.	100	2	5	3.66	.792	.660	.000
The company has a detailed job description for each employee.	100	2	5	3.69	.798	.690	.000
The company has a standard operational procedure document..	100	2	5	3.95	.800	.950	
The company has a written code of conduct.	100	2	5	3.87	.779	.870	.000
The company has a specific reward and punishment procedure.	100	1	3	2.00	.702	-1.000	
N=100				Average	Average		
Test value=3				Mean=3.	S.D.=		
				45	1.06		

Source:FieldSurvey,2024

Table 4 presents the descriptive statistics for accountability-related variables, based on responses from 100 participants. The table includes the minimum (Min), maximum (Max), mean, standard deviation (Std. Deviation), mean difference, and p-value for each item. The variable "The company has a standard operational procedure document" has the highest mean value of 3.95, with a standard deviation of 0.800, indicating a relatively high level of agreement among respondents regarding the existence of a standard operational procedure. Similarly, the statement "The company has a written code of conduct" shows a mean of 3.87, with a standard deviation of 0.779, suggesting strong agreement with the company's adherence to a code of conduct. On the other hand, the statement "The company has a specific reward and punishment procedure" has the lowest mean of 2.00, with a standard deviation of

0.702. This indicates a lack of agreement among respondents and suggests that the company may not have a well-established or clear reward and punishment system in place. The average mean for all accountability-related items is 3.45, with an average standard deviation of 1.06, suggesting that respondents generally perceive a moderate level of accountability within the company, but with considerable variation in responses. The p-values for most variables are less than 0.05, indicating that the mean values for these items are statistically significant, except for the item regarding the reward and punishment procedure, which shows a mean difference of -1.000 and is not significantly greater than the test value of 3. This suggests that respondents view this particular aspect of accountability as relatively weak.

Responsibility

Responsibility is a key pillar of corporate governance that reflects an organization's commitment to ethical business practices, legal compliance, and social obligations. A responsible company ensures fair treatment of employees, adherence to labor laws, timely tax payments, and implementation of safety protocols to protect both workers and stakeholders. By fulfilling these duties, businesses build credibility, foster trust, and contribute to long-term sustainability. Establishing clear policies, such as structured payroll systems, well-defined work safety procedures, and transparent tax reporting, reinforces an organization's dedication to responsibility. However, inconsistencies in meeting these obligations can lead to skepticism and reduced stakeholder confidence. Ensuring responsible corporate behavior not only strengthens internal operations but also enhances the company's reputation and long-term success in an increasingly accountable business environment.

Table 5

Descriptive Statistics of Responsibility

Variable	N	Min	Max	Mean	Std. Deviation	Mean difference	p-value
The company applies a specific work safety procedure.	100	1	5	3.46	1.155	.755	0.000
The company has a specific payment period to employees.	100	1	5	3.63	0.876	.715	0.000
Management continuously reports the annual report to the family/owner.	100	1	5	3.61	0.867	1.155	0.000
The company pays taxes on time.	100	1	5	3.09	1.003	1.080	0.206
The company reports tax documents on time.	100	1	5	3.21	1.373	1.115	0.032
N=100				Average	Average		
Testvalue=3				e	S.D=		
				Mean	1.054		
				=3.456			

Source:FieldSurvey,2024

Table 5 presents the descriptive statistics for responsibility-related variables, based on responses from 100 participants. The table includes the minimum (Min), maximum (Max), mean, standard deviation (Std. Deviation), mean difference, and p-value for each item. The highest mean score is 3.63, for the statement "The company has a specific payment period to employees," with a standard deviation of 0.876, indicating a relatively strong level of agreement among respondents regarding the clarity of the company's payment period for employees. This is closely followed by "The company applies a specific work safety procedure," which has a mean of 3.46 and a standard deviation of 1.155, suggesting a moderate but positive perception of the company's commitment to work safety. The lowest mean score is 3.09 for "The company pays taxes on time," with a standard deviation of 1.003. Although this suggests some agreement, the relatively lower mean indicates that respondents perceive less reliability regarding timely tax payments compared to other aspects of responsibility.

Additionally, the p-value for this item is 0.206, which is greater than 0.05, indicating that this result is not statistically significant. The statement "The company reports tax documents on time" has a mean of 3.21, with a higher standard deviation of 1.373, reflecting some variation in responses, and a p-value of 0.032, indicating statistical significance. The average mean across all responsibility-related items is 3.46, with an average standard deviation of 1.054, suggesting that respondents generally perceive the company to be moderately responsible, with notable variation in responses. Overall, the results highlight that while respondents agree that the company demonstrates a reasonable level of responsibility in most areas, there are some concerns, particularly regarding timely tax payments, where perceptions vary more significantly.

Independence

Independence in corporate governance refers to the ability of a company to operate without undue influence from specific individuals or groups, ensuring objective decision-making and professional management. A well-structured organization maintains a clear distinction between ownership interests and business operations, allowing for strategic planning based on market conditions rather than personal influence. Independence is particularly important in family-owned businesses, where balancing familial involvement with professional management can impact transparency, accountability, and overall corporate efficiency. Companies that establish independent decision-making processes, formal recruitment methods, and clear operational boundaries between family and professional roles are more likely to foster sustainability and long-term growth. However, when independence is compromised, decision-making may become biased, limiting innovation and organizational adaptability. Strengthening independence within a company helps enhance governance, build investor confidence, and promote a fair and structured business environment.

Table 6

Descriptive Statistics of Independence

Variable	N	Min.	Max.	Mean	Std. Deviation	Mean difference	p-value
The company strategy is decided by the family/owner.	100	2	5	3.87	0.746	0.870	0.000
The company has specific recruitment methods.	100	1	5	3.32	0.721	0.320	0.000
The company's planning is influenced by the family/owner.	100	1	5	2.93	1.035	-0.070	0.340
Decision-making is based on the family/owner's decision..	100	1	5	3.42	0.810	0.420	0.000
The company has a distinct separation between family business interests and professional roles	100	2	5	3.87	.779	.870	.000
N=100				Average	Average		
Test value=3				Mean=	S.D=0.900		
				3.385			

Source:FieldSurvey,2024

Table 6 presents the descriptive statistics for independence-related variables, based on responses from 100 participants. The table includes the minimum (Min), maximum (Max), mean, standard deviation (Std. Deviation), mean difference, and p-value for each item. The highest mean scores, both 3.87, are for the statements "The company strategy is decided by the family/owner" and "The company has a distinct separation between family business interests and professional roles." Both items show a relatively high level of agreement with a standard deviation of 0.746 and 0.779,

respectively, indicating consistency in respondents' views about the family's role in company strategy and the separation between family and professional interests. The statement "The company has specific recruitment methods" has a mean of 3.32 and a standard deviation of 0.721, reflecting moderate agreement regarding the existence of a formal recruitment process. This is also statistically significant, with a p-value of 0.000. The lowest mean score is 2.93 for "The company's planning is influenced by the family/owner," with a standard deviation of 1.035. This indicates more neutral or disagreeing views on the degree of influence exerted by the family or owner over the company's planning. The p-value for this item is 0.340, which is greater than 0.05, suggesting that the result is not statistically significant, and respondents generally do not perceive significant influence from the family/owner on the company's planning. The statement "Decision-making is based on the family/owner's decision" has a mean of 3.42 and a standard deviation of 0.810, suggesting moderate agreement with the centrality of the family/owner's decision-making, with a p-value of 0.000 indicating statistical significance. The average mean for all independence-related items is 3.39, with an average standard deviation of 0.900, indicating that respondents generally perceive a moderate level of independence within the company. However, there is considerable variation in how different aspects of the company's independence, particularly in planning and decision-making, are perceived. Overall, the results highlight that while the family/owner's role in strategic decisions is recognized, there is a mixed perception of the company's operational independence, with varying views on the influence of family/owner involvement in planning and decision-making processes.

Fairness

Fairness is a critical principle in corporate governance that ensures equal treatment, transparency, and impartiality in decision-making processes. It involves establishing clear policies and practices that prevent favoritism, particularly in areas such as hiring, promotions, and participation in company decisions. In family-owned businesses, maintaining fairness is essential to balancing the interests of both family and non-family members while fostering a work environment built on trust and meritocracy. Regular board or family meetings, transparent promotion policies, and well-defined operational roles contribute to perceptions of fairness within an organization. When fairness is upheld, it enhances employee morale, reduces

conflicts, and promotes long-term business stability. However, inconsistencies in fairness-related policies can lead to dissatisfaction, reduced motivation, and potential governance challenges. Ensuring fairness in corporate operations not only strengthens internal relationships but also enhances the overall credibility and sustainability of the business.

Table 7
Descriptive Statistics of Fairness

Variable	N	Min.	Max.	Mean	Std. Deviation	Mean difference	p-value
Family/owner has unlimited access to the daily business operations.	100	1	5	3.27	1.045	0.270	0.000
The company holds board/family meetings on a regular basis	100	1	5	3.44	0.768	0.440	0.000
Family members have limited opportunities to work at the company..	100	1	4	3.21	0.772	0.205	0.000
There are fair and transparent processes for promoting or hiring family members within the company	100	2	5	3.47	0.814	0.465	0.000
There are clear policies regarding family members' participation in company decisions	100	1	5	3.42	0.810	0.420	0.000

N=100	Average	Average S.D=
Test value=3	Mean= 0.863	3.345

Source:FieldSurvey,2024

Table 7 presents the descriptive statistics for fairness-related variables, based on responses from 100 participants. The table includes the minimum (Min), maximum (Max), mean, standard deviation (Std. Deviation), mean difference, and p-value for each item. The statement "The company holds board/family meetings on a regular basis" has the highest mean value of 3.44, with a standard deviation of 0.768, indicating a moderate level of agreement among respondents that such meetings occur regularly. This is followed by the statement "There are fair and transparent processes for promoting or hiring family members within the company," which has a mean of 3.47 and a standard deviation of 0.814, suggesting that respondents view the company's processes for promoting or hiring family members as relatively fair and transparent. The lowest mean score, 3.21, is for "Family members have limited opportunities to work at the company," with a standard deviation of 0.772, indicating moderate agreement that family members have limited opportunities within the company. Other items, such as "Family/owner has unlimited access to the daily business operations" and "There are clear policies regarding family members' participation in company decisions," have means of 3.27 and 3.42, respectively, with standard deviations of 1.045 and 0.810, indicating that respondents perceive some degree of fairness, but with notable variation in their views. The average mean across all fairness-related items is 3.35, with an average standard deviation of 0.863, suggesting that respondents generally perceive a moderate level of fairness in the company's operations, with some variation in opinions. All p-values for the items are less than 0.05, indicating that the mean values for these variables are statistically significant, confirming that fairness is perceived as a relevant and consistent aspect of the company, despite the variation in individual responses.

Perceived Performance

Perceived performance reflects employees' and stakeholders' subjective assessments of a company's overall effectiveness, growth, and operational success. It encompasses key indicators such as employee retention, productivity, skill development, and trust

within the organization. A company that fosters a positive work environment, enhances employee confidence, and maintains fair recruitment practices is often viewed as high-performing. Reduced employee turnover signals job satisfaction and stability, while increased productivity and strong employer-employee relationships contribute to long-term success. Perceptions of performance play a crucial role in shaping organizational reputation, influencing both internal motivation and external stakeholder confidence. However, variations in perceived performance may arise due to differences in individual experiences and expectations. Ensuring consistent improvement in work conditions, fair policies, and transparent business operations can further enhance employees' and stakeholders' confidence in the company's overall performance.

Table 8
Descriptive Statistics of Perceived performance

Variable	N	Min	Max	Mean	Std. Deviation	Mean difference	p-value
The productivity of the company has increase.	100	1	5	4.09	0.855	0.870	0.000
The trusting relationship between company and employee has increase.	100	1	5	4.09	0.952	0.320	0.000
The work responsibility has to increase knowledge and confidence in skills.	100	2	5	4.17	0.946	0.070	0.000
The recruitment of employee on the board and other level are fair.	100	3	5	4.04	0.739	0.420	0.000
The rate of employees' turnover has decreased.	100	3	5	4.31	0.666	.870	0.000
N=100				Average Mean	Average S.D=		
Test value=3				= 4.137	0.843		

Source: Field Survey, 2024

Table 8 presents the descriptive statistics for perceived performance variables, based on responses from 100 participants. The table includes the minimum (Min), maximum (Max), mean, standard deviation (Std. Deviation), mean difference, and p-value for each item. The highest mean score, 4.31, is for the statement "The rate of employees' turnover has decreased," with a standard deviation of 0.666, indicating strong agreement among respondents regarding the decrease in employee turnover. This is closely followed by "The work responsibility has increased knowledge and confidence in skills," which has a mean of 4.17 and a standard deviation of 0.946, suggesting that respondents perceive a positive impact of work responsibility on skill development and confidence. The statement "The productivity of the company has increased" and "The trusting relationship between company and employee has increased" both have means of 4.09, with standard deviations of 0.855 and 0.952, respectively, indicating positive perceptions of productivity and employee trust, although with some variation in responses. The statement "The recruitment of employees on the board and other levels are fair" has a mean of 4.04 and a standard deviation of 0.739, suggesting that respondents perceive the recruitment process as fair, though with slightly less intensity compared to other items. The overall average mean for perceived performance is 4.14, with an average standard deviation of 0.843, indicating a generally positive perception of the company's performance across multiple areas, with moderate variation in responses. All p-values for the items are less than 0.05, indicating that the mean values for these variables are statistically significant, reinforcing the reliability of respondents' perceptions of the company's positive performance in these areas.

4.1.4 Correlation Analysis

Pearson Correlation analysis is employed to examine the relationship between various independent and dependent variables relevant to the research. It assesses the degree of linear association between two variables. This analysis was performed on variables that had simple multiple-choice responses. A correlation matrix was generated to evaluate the strength and direction of the relationships among the research variables. A positive correlation indicates that as one variable increases, the other also increases, reflecting a direct relationship. In contrast, a negative correlation suggests that an increase in one variable corresponds to a decrease in the other, indicating an inverse relationship.

Table 9

Correlation Analysis

		TR	AC	RE	IN	FA	PP
TR	Pearson Correlation	1					
AC	Pearson Correlation	.328**	1				
RE	Pearson Correlation	.597**	.540**	1			
IN	Pearson Correlation	.623**	.350**	.491**	1		
FA	Pearson Correlation	.772**	.440**	.629**	.728**	1	
PP	Pearson Correlation	.817**	.324**	.572**	.659**	.805**	1

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

Source: Field Survey, 2024

Table 9 presents the results of a Pearson correlation analysis, examining the relationships between Transparency, Accountability, Responsibility, Independence, Fairness, and Perceived Performance. The table shows that all correlations are statistically significant at the 0.01 level, indicating strong interrelationships among the variables. The most notable finding is the strong positive correlation between Transparency and Perceived Performance (.817), as well as with Fairness (.772). These results suggest that greater transparency within an organization is highly associated with improved performance and fairness, highlighting transparency as a key driver of organizational effectiveness and employee perceptions of fairness. Accountability exhibits a moderate positive correlation with Transparency (.328) and Perceived Performance (.324), indicating a weaker but still significant relationship with these factors. This suggests that while accountability contributes to organizational outcomes, its impact is less pronounced compared to other variables like Transparency and Fairness. Responsibility shows a significant positive correlation with Transparency (.597) and Fairness (.629), emphasizing the role of responsibility in fostering transparent and fair practices. The correlation between Independence and Transparency (.623) is similarly strong, while its relationship with Fairness (.728) is

even more pronounced, indicating that organizational independence is crucial in promoting both transparency and fairness. Finally, Fairness demonstrates a very strong positive correlation with Perceived Performance (.805), underscoring its critical role in shaping employee perceptions of performance outcomes within the organization. In conclusion, results highlights the interconnectedness of these organizational attributes, with Transparency and Fairness emerging as the most influential factors in enhancing Perceived Performance. The positive correlations suggest that fostering a transparent and fair organizational environment can significantly improve overall performance outcomes, with Responsibility and Independence also playing important supporting roles.

4.1.5 Regression Analysis

This section aims to identify which independent variables contribute to explaining the variation in the outcome, how much of the dependent variable's variability is accounted for by the independent variables, and which variables are most significant in influencing the dependent variable. Multiple regression analysis was utilized to assess the effect of the independent variables (Transparency, Accountability, Responsibility, Independence, and Fairness) on the dependent variable, Perceived Performance. Multiple linear regression helps predict the influence of these independent variables on perceived performance. The following tables present the results, including the model summary, analysis of variance (ANOVA), and beta coefficients, which highlight the impact of corporate governance variables on perceived performance.

Table 10

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.866 ^a	0.751	0.749	0.439

a. Dependent Variable: Perceived performance

b. Predictors: (Constant), Responsibility, Accountability, Independence, Transparency, Fairness

Source: Field Survey, 2024

Table 10 provides the model summary, which includes the R-squared value, also known as the coefficient of determination, which helps explain the variance in the dependent variable. The R-squared value is 0.751, indicating that 75 percent of the variation in Perceived Performance is accounted for by the independent variables. However, this leaves 25 percent of the variation unexplained, suggesting that there are other important factors related to corporate governance in family-owned businesses that have not been considered in this study.

Furthermore, the adjusted R-squared is 0.749, meaning that after adjusting for degrees of freedom, 74.9 percent of the variation in Perceived Performance is explained by the independent variables. This supports the existence of a positive relationship between the corporate governance variables and Perceived Performance. The model summary also indicates a standard error of the estimate of 0.439, which means that the observed values of Perceived Performance deviate from the regression line by an average of 0.439 units.

Table 11
ANOVA

		Sum of				
Model		Squares	df	Mean Square	F	Sig.
1	Regression	461.585	5	92.317	478.474	.000 ^b
	Residual	153.195	794	0.193		
Total		614.780	799			

a. Dependent Variable: Perceived performance

b. Predictors: (Constant), Responsibility, Accountability, Independence, Transparency, Fairness

Source: Field Survey, 2024

Table 11 presents the results of the ANOVA, where the p-value is 0.001, which is lower than the alpha value of 0.01. This indicates that the model is a strong predictor of the relationship between the dependent and independent variables. Consequently, the independent variables: Transparency, Responsibility, Independence, Fairness, and

Accountability are significant in explaining the variance in Perceived Performance. In other words, at least one of these five independent variables plays a crucial role in influencing Perceived Performance.

Table 12
Coefficients

Model	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	0.638	0.085		7.512	0.000
Transparency	0.486	0.031	0.458	15.448	0.000
Accountability	-0.079	0.029	-0.083	-2.708	0.007
Responsibility	0.125	0.029	0.148	4.257	0.000
Independence	0.088	0.025	0.091	3.472	0.001
Fairness	0.334	0.035	0.329	9.663	0.000

a. Dependent Variable: Perceived performance

b. Predictors: (Constant), Responsibility, Accountability, Independence, Transparency, Fairness

Source: Field Survey, 2024

Table 12 provides a summary of the unstandardized beta coefficients ($\beta_1, \beta_2, \dots, \beta_5$) and the constant α , which are used to formulate the estimated equation for the impact of the independent variables on Perceived Performance. Using these values, the estimated equation can be written as follows:

$$\hat{Y} = 0.638 + 0.486X_1 - 0.079X_2 + 0.125X_3 + 0.0884X_4 + 0.334X_5 + e_i.$$

According to Table 12, Responsibility, Fairness, Independence, and Transparency are the significant independent variables, while Accountability is not found to be significant, as its p-value is greater than 0.05 ($p > 0.05$). In regression analysis, beta coefficients indicate the relative importance of each independent variable in explaining the variance in the dependent variable. The results in Table 12 show that Transparency ($\beta_1 = 0.486$, $p = 0.000$) has the greatest impact on Perceived Performance, followed by Responsibility ($\beta_3 = 0.125$, $p = 0.000$), Independence ($\beta_4 = 0.088$, $p = 0.001$), and Fairness ($\beta_5 = 0.334$, $p = 0.000$). The Accountability variable ($\beta_2 = -0.079$, $p = 0.007$) indicates a negative relationship with Perceived Performance but is not statistically significant. For instance, a one-unit increase in Responsibility would result in a 0.125 unit increase in Perceived Performance, assuming other factors remain constant. Similarly, a one-unit increase in Transparency would lead to a 0.486 unit increase in Perceived Performance, whereas a one-unit increase in Accountability would result in a 0.079 unit decrease in Perceived Performance. In conclusion, Transparency, Responsibility, Independence, and Fairness are significant factors in influencing Perceived Performance, while Accountability does not have a meaningful impact. Therefore, the results of the multiple regression analysis support the alternative hypotheses, confirming a relationship between the independent variables of corporate governance and Perceived Performance, with the exception of Accountability.

4.1.6 Hypotheses Testing

H1: Transparency has a significant relationship with perceived performance.

The results indicate that the Pearson Correlation Coefficient between Transparency and Perceived Performance is $r = 0.817$, suggesting a strong positive relationship between the two variables. This correlation is statistically significant at the 5% level, as the p-value is less than the alpha threshold of 0.05 ($p = 0.001$). Therefore, H1 is supported.

H2: Accountability has a significant relationship with perceived performance.

The results reveal that the Pearson Correlation Coefficient between Accountability and Perceived Performance is $r = 0.324$, indicating a moderate to strong positive correlation between the two variables. This correlation is statistically significant at the

5% significance level, as the p-value is below the alpha threshold of 0.05 ($p = 0.001$). Therefore, H2 is supported.

H3: Responsibility has a significant relationship with perceived performance.

The results indicate that the Pearson Correlation Coefficient between Responsibility and Perceived Performance is $r = 0.572$, suggesting a positive correlation between the two variables. This correlation is statistically significant at the 5% significance level, as the p-value is less than the alpha value of 0.05 ($p = 0.001$). Therefore, H3 is accepted.

H4: Independence has a significant relationship with perceived performance.

The results demonstrate that the Pearson Correlation Coefficient between Independence and Perceived Performance is $r = 0.659$, indicating a positive correlation between the two variables. This correlation is statistically significant at the 5% significance level, with the p-value being less than the alpha value of 0.05 ($p = 0.001$). Therefore, H4 is accepted.

H5: Fairness has a significant relationship with perceived performance.

The results indicate that the Pearson Correlation Coefficient between Fairness and Perceived Performance is $r = 0.805$, reflecting a strong positive correlation between the two variables. This correlation is statistically significant at the 5% significance level, as the p-value is below the alpha threshold of 0.05 ($p = 0.001$). Therefore, H5 is accepted.

4.2 Major Findings

The findings of this research highlight the relationship between corporate governance and its variables, as identified in the existing literature. The descriptive statistics and hypothesis tests were conducted, and the results were presented as follows:

- i. The average mean value for Transparency is 3.96, indicating that respondents generally agree that transparency is a key factor influencing perceived performance. The t-test results show that all transparency-related variables have p-values below 0.05, confirming that their mean values are significantly greater than 3. The standard deviation is 0.858, indicating some variability in responses. Gulzar and Wang (2010) found that governance transparency

positively correlated with business sustainability, with a coefficient of 0.30. The mean for business sustainability was 4.2/5, suggesting consistency in transparency across family businesses. Sikandar and Mahmood (2018) also emphasized board transparency, noting that it contributed positively to firm value. Kharel (2019) found a coefficient of 0.20 linking transparency to organizational performance, further supporting the critical role transparency plays in governance.

- ii. The average mean value for Accountability is 3.453, suggesting that respondents recognize accountability as an important aspect of corporate governance influencing perceived performance. The t-test results for all accountability-related variables show p-values below 0.05, confirming that their mean values are significantly greater than 3. Bista et al. (2019) found that governance practices, including accountability, significantly impacted dividend policies, with a coefficient of 0.40, showing a positive effect on performance. Kharel (2019) also highlighted accountability in his study, noting its positive but less pronounced effect on organizational performance. These studies reinforce the importance of accountability but suggest that its effect might not be as strong compared to other governance aspects.
- iii. The mean value for Responsibility is 3.4567, showing that respondents agree on the importance of responsibility in corporate governance and its impact on perceived performance. The t-test results reveal that all responsibility-related variables have p-values below 0.05, except for one variable with a p-value of 0.206. This suggests that most variables related to responsibility significantly affect perceived performance. Acharya (2018) emphasized that responsible governance promotes financial stability and leads to improved business outcomes, especially in family-owned commercial banks. Bista et al. (2019) also highlighted the role of responsibility in corporate governance, particularly in influencing dividend decisions in family-owned enterprises. These findings align with the current study's results, supporting the role of responsibility in improving perceived business performance.
- iv. The average mean for Independence is 3.385, suggesting that respondents agree that independence plays a significant role in corporate governance and perceived performance. The t-test results show that most variables related to independence have p-values below 0.05, except for one variable with a p-

value of 0.340, indicating that independence is mostly significant in affecting performance. Sikandar and Mahmood (2018) found a positive relationship between board independence and firm value, with a coefficient of 0.35. Dhalet al. (2023) highlighted the positive influence of independent governance structures on performance, reporting a coefficient of 0.50 for the telecommunications sector in Nepal. These empirical findings reinforce the importance of independence in governance, with the current study's mean score for independence aligning with its reported significance in business performance.

- v. The overall mean for Fairness is 3.345, indicating that respondents believe fairness is a critical factor in corporate governance that affects perceived performance. The t-test results for fairness-related variables show p-values below 0.05, confirming their significance. Farrington (2014) examined fairness in family businesses, noting that fairness in decision-making was linked to centralized governance, which reduced innovation. Despite its critical role in governance, fairness may have a more complex relationship with performance, as seen in the varied results from the empirical studies. The mean score of 3.345 for fairness suggests that, while important, it is less emphasized compared to transparency and responsibility in driving business performance.
- vi. The mean value for Perceived Performance is 4.137, indicating that respondents generally perceive high performance levels in family-owned businesses. The t-test results show that all variables related to perceived performance have p-values below 0.05, confirming their significance. Ghimire et al. (2022) reported a mean score of 4.5/5 for business success in well-governed family-owned businesses, indicating that governance structures had a substantial impact on perceived performance. Dahal et al. (2023) also found a high level of performance in family-owned businesses in the telecommunications sector, with a mean of 4.7/5. While the current study's mean of 4.137 is slightly lower than those reported in the empirical review, it still reflects a strong positive relationship between governance practices and perceived performance, aligning with global findings.

4.3 Discussion

This section examines the analysis of Corporate Governance and the interconnections between its various components. The findings from the current study regarding corporate governance in family-owned businesses align with key trends in the empirical literature, but they also reveal some distinctions in the relative influence of various governance components on perceived performance. The analysis in this study highlights that Transparency (mean = 3.96) has the highest impact on perceived performance, followed by Independence (mean = 3.385) and Fairness (mean = 3.345), with Accountability and Responsibility playing a lesser role. This is consistent with findings from previous studies such as Gulzar and Wang (2010) and Kharel (2019), which emphasize the importance of transparent governance mechanisms for business sustainability and performance. Transparency's significant role in the current study aligns with the finding of a positive correlation between governance transparency and business sustainability (coefficient = 0.30) in Gulzar and Wang's study. However, Accountability did not show a significant impact on perceived performance in this study, which contrasts with its reported positive influence in previous research, including Bista et al. (2019), who found that accountability contributed significantly to dividend policies and business outcomes. The empirical review suggests that accountability in governance practices has a notable influence on decision-making and, ultimately, business success, although it was not a statistically significant factor in the current study.

The study also indicates that Independence and Fairness have the strongest correlations with perceived performance ($r = 0.817$ and $r = 0.805$, respectively). This resonates with the findings of Sikandar and Mahmood (2018), who found a positive relationship between board independence and firm value (coefficient = 0.35) and Dahal et al. (2023), whose study in Nepal's telecommunications sector found a similar pattern (coefficient = 0.50). The importance of Independence is further corroborated by Sthapit (2024), who emphasized the significance of director independence in driving organizational success. Our study shows that Independence is crucial but does not overshadow the influence of other variables, such as Transparency. Additionally, the multiple regression analysis in the current study revealed that Transparency, Responsibility, Independence, and Fairness were significant, while Accountability was non-significant, further underscoring the findings that Accountability's impact

might be weaker in the context of perceived performance in family-owned businesses. In contrast, Acharya (2018) and Kharel (2019) had highlighted that good governance, including accountability, was associated with increased investment and improved organizational outcomes, suggesting that while Accountability may not be a dominant factor here, it might still play a role in broader organizational health or other indirect metrics. In terms of performance, the study reports a mean value of 4.137 for Perceived Performance, which reflects high levels of perceived business success. This is comparable to the findings of Ghimire et al. (2022), who reported a mean of 4.5/5 for business success in well-governed family businesses. The study also mirrors Dahal et al. (2023), which noted a similar pattern of strong organizational performance (mean = 4.7/5) in well-governed sectors like telecommunications.

In conclusion, while the current study echoes the broader trends identified in the empirical review, it also highlights the nuanced relationships between corporate governance variables and perceived performance in family-owned businesses. The findings emphasize the critical roles of Transparency, Independence, and Fairness in driving success, with Accountability being a relatively weaker determinant. These insights align with, but also extend, previous research by affirming the need for balanced governance strategies that prioritize transparency and independence while recognizing the lesser role that accountability may play in some contexts.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter is divided into three sections. The first section offers a summary of the study, the second presents the conclusions drawn from the research, and the final section outlines the implications based on the findings to address the issues identified.

5.1 Summary

The primary aim of this research study was to explore whether a relationship exists between corporate governance and its various associated variables, and to examine how these factors influence the perceived performance of family-owned businesses. To address this research question, a comprehensive review of existing literature on corporate governance was conducted, focusing on key factors that affect corporate governance practices, identifying the drivers that contribute to its success, and understanding the methods used to measure corporate governance. Additionally, the study also delved into the dimensions of corporate governance, the relationships between these dimensions, and their potential influence on other business variables.

The research was specifically focused on family-owned businesses within the Kathmandu Valley, which is home to approximately 41,478 SMEs. From this large pool, a sample of 100 SMEs was selected using a purposive sampling technique. The selection of these businesses was aimed at gaining insights into the practices of corporate governance in a specific context family-owned SME and their impact on the perceived performance of these businesses. The specific objectives of the study were: (i) to evaluate the current state of corporate governance practices in selected family-owned businesses, (ii) to assess the perceived performance of these businesses, and (iii) to investigate the influence of corporate governance practices on the perceived performance of these businesses. This study relied on primary data collected through questionnaires distributed to staff members working in the relevant banks. The questionnaires were designed to gather detailed responses regarding the corporate governance practices followed by these family-owned businesses and their corresponding perceived performance. A total of 100 valid questionnaires were collected and used for the analysis. The data collected was then organized and analyzed using Microsoft Excel and SPSS software packages to identify patterns,

relationships, and key insights. The analysis revealed that all the tested variables related to corporate governance such as transparency, accountability, responsibility, independence, and fairness had a significant impact on the perceived performance of the family-owned businesses. This finding supports the idea that effective corporate governance practices play a crucial role in enhancing business performance. The use of advanced data analysis tools, such as SPSS, allowed the researcher to rigorously evaluate the responses, providing a clear understanding of how corporate governance affects business outcomes. Ultimately, the research findings underscored the importance of corporate governance in the context of family-owned SMEs, showing that the adoption of sound corporate governance practices can positively influence perceived business performance. This highlights the need for family-owned businesses to pay closer attention to their governance structures in order to achieve better business outcomes. The findings from the current study regarding corporate governance in family-owned businesses align with key trends in the empirical literature, but they also reveal some distinctions in the relative influence of various governance components on perceived performance. The analysis in this study highlights that Transparency (mean = 3.96) has the highest impact on perceived performance, followed by Independence (mean = 3.385) and Fairness (mean = 3.345), with Accountability and Responsibility playing a lesser role. Transparency's significant role in the current study aligns with the finding of a positive correlation between governance transparency and business sustainability (coefficient = 0.30) in Gulzar and Wang's study. However, Accountability did not show a significant impact on perceived performance in this study, which contrasts with its reported positive influence in previous research, including Bista et al. (2019), who found that accountability contributed significantly to dividend policies and business outcomes. The empirical review suggests that accountability in governance practices has a notable influence on decision-making and, ultimately, business success, although it was not a statistically significant factor in the current study.

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5.2 Conclusion

The primary objective of this study was to assess corporate governance in family-owned businesses and explore the relationship between perceived performance and key governance factors, including transparency, accountability, independence, fairness, and responsibility. Upon examining these elements, the findings revealed that a significant relationship exists between corporate governance practices and perceived performance in family-owned businesses. The results suggest that these businesses must prioritize corporate governance to enhance their overall performance. The research highlights the critical role of corporate governance in driving organizational success. It shows that transparency, accountability, independence, fairness, and responsibility are crucial factors in determining the success of businesses. According to the study, these five variables significantly contribute to creating strong corporate governance in family-owned businesses. The results of the multiple regression analysis support the alternative hypothesis that a relationship exists between the corporate governance variables and perceived performance, with

the exception of accountability. Interestingly, accountability was found to have a minimal impact on perceived performance.

This research emphasizes the importance of governance as a fundamental aspect of any organization, particularly in family-owned businesses, where it plays a pivotal role in shaping information disclosure practices. The survey suggests that maintaining effective corporate governance in family-owned businesses can help sustain their competitive edge and enhance their long-term success. Furthermore, the study concludes that corporate governance variables such as responsibility, independence, fairness, and accountability have significant effects on business operations.

One surprising finding is that accountability, despite being a core component of corporate governance, was found to have little impact on the performance of family-owned businesses. Based on the analysis, it can be concluded that while corporate governance is essential for the efficient functioning of family-owned businesses, the role of certain dimensions, such as accountability, might need further attention. In light of these findings, it is clear that family-owned businesses must focus on improving corporate governance practices to achieve long-term success. The management should pay close attention to corporate governance to drive customer satisfaction and ensure organizational success. In conclusion, corporate governance remains a crucial factor in the sustainability and performance of family-owned businesses, with each governance dimension playing a unique and significant role in shaping overall business success.

5.3 Implications

Based on the findings of this study, several recommendations are offered to guide future research in corporate governance, particularly in family-owned businesses, and to improve their practices. These suggestions are as follows:

Policymakers:

- i. Policymakers should consider expanding the scope of corporate governance regulations to encompass a broader range of business sectors, beyond family-owned businesses, to ensure that governance practices are aligned with the diverse needs of different industries.

- ii. Given the study's focus on family-owned businesses in Kathmandu Valley, policymakers may want to consider implementing national-level policies that promote transparency and accountability across all business sectors in Nepal, helping to improve governance standards nationwide.
- iii. As the study's sample size was relatively small and focused on a specific geographic area, policymakers could encourage research initiatives with larger and more representative samples from different regions of Nepal, ensuring that policies are informed by comprehensive and generalizable data.
- iv. Future policies could support more extensive data collection methods, including in-depth interviews and qualitative analysis, to complement quantitative surveys, providing a fuller picture of corporate governance practices and their impact on business performance.

Practitioners:

- i. Family-owned businesses and their management teams should consider enhancing their corporate governance structures, especially focusing on Transparency, Independence, and Fairness, which have shown strong correlations with perceived performance in this study.
- ii. Practitioners should recognize the importance of adjusting corporate governance practices to meet the unique needs of family-owned businesses while balancing it with broader industry-specific governance standards. It is also important for them to be open to incorporating more comprehensive data collection methods, such as interviews and case studies, to better understand the nuances of governance in their specific organizational contexts.
- iii. Given that Accountability showed weaker correlation with perceived performance, practitioners should focus on reinforcing the critical governance elements, such as Independence and Fairness, while also evaluating how they can improve accountability practices to ensure better decision-making.
- iv. The limited sample size in this study suggests that practitioners should engage in research and data collection efforts to improve the generalizability of governance practices across their industries, ensuring that they adopt best practices that have proven effective in diverse contexts.

Academic Community:

- i. The findings from this study provide significant insights for academic researchers to explore new variables beyond Transparency, Independence, Fairness, Responsibility, and Accountability that might influence corporate governance and business performance. Future research could introduce additional factors such as leadership styles, organizational culture, or digital transformation in governance practices.
- ii. Academics could further explore the differences in corporate governance practices between family-owned businesses and other types of organizations, such as manufacturing or finance companies, to identify industry-specific trends and strategies.
- iii. The study's limitations, such as the small sample size and regional focus, suggest that further research should expand the scope to include more diverse business sectors and geographical locations, particularly outside Kathmandu Valley, to ensure findings are applicable on a national level.
- iv. The use of only surveys and questionnaires in this study suggests a need for future research to adopt mixed-methods approaches, incorporating qualitative data through in-depth interviews, case studies, or field observations to provide richer insights into the interplay between corporate governance and business outcomes.
- v. Scholars could also investigate the role of Accountability in greater depth, considering how better asset and investment management practices may influence its effect on perceived performance. Future research could also benefit from longitudinal studies to understand the long-term effects of corporate governance changes on business sustainability.

These implications serve as valuable considerations for policymakers, practitioners, and researchers, helping to advance corporate governance practices and improve business performance across various sectors and regions in Nepal.

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Appendix

Questionnaire

Corporate Governance in Family Owned Businesses

Welcome, and thank you for participating in this survey!

This survey is being conducted for the partial fulfilment of the requirements for the Degree of Master of Business Studies. The aim of this survey is to gather valuable insights into corporate governance practices in family-owned businesses, particularly in small and medium-sized enterprises (SMEs). Your responses will help us better understand the current governance practices related to transparency, accountability, responsibility, independence, and fairness within family businesses.

Your participation is highly valuable, and your responses will remain confidential. This survey is a key part of research that will contribute to the understanding of governance practices in family businesses. Thank you for taking the time to complete it!

Personal Information

Name:

Section A: Business and Respondent Information

1. What is the name of your business?
.....
2. Is your business officially registered?
 - Yes
 - No
3. PAN/VAT Registration No
.....
4. What is your educational background?
 - School Level
 - Intermediate Level
 - Bachelor's level
 - Others,.....
5. How long has your business been operating?
 - More than 5 years
 - 3-5 years

- Less than 3 years
6. Which industry sector does your business belong to?
- General Service Industry
 - General Trading Sector
 - Culinary Sector
 - General Industry
 - Others,.....

Section B: SME and Family Business Characteristics

7. How many employees does your business have?
- Less than 10 employees
 - 10-20 employees
 - More than 20 employees
8. What is your business's average yearly income?
- Less than Rs. 2 Million
 - Rs. 2-5Million
 - Rs. 5-10Million
 - More than Rs. 10Million
9. How many family members are involved in the business?
- Less than 2 family members
 - 3-5 family members
10. How often do you hold annual meetings?
- 0-2 times per year
 - More than 2 times per year
11. Is there a separation of business structure in your company?
- Yes
 - No

Section C: Good Corporate Governance Practices

In the following section, you will be asked to rate various statements related to your business practices. Please indicate your level of agreement with each statement using the scale below:

1 = Strongly Disagree, 2 = Disagree, 3 =Neutral, 4 = Agree, 5= Strongly Agree.Your responses will help us better understand the current governance practices in your organization."

Variable	Statement	1	2	3	4	5
Transparency	The company's financial and non-financial reports are reported on a regular basis.					
	The company's financial statement is reported in detail (Profit & Loss, Ledger, Cash Flow).					
	The company holds evaluation meetings on a regular basis.					
	The company discloses the internal salary system to employees.					
	The company provides clear and detailed reports on sustainability practices and goals.					
Accountability	The company has a separate managerial structure.					
	The company has a detailed job description for each employee.					
	The company has a standard operational procedure document.					
	The company has a written code of conduct.					
	The company has a specific reward and punishment procedure.					
Responsibility	The company applies a specific work safety procedure.					
	The company has a specific payment period to employees.					
	Management continuously reports the annual report to the family/owner.					
	The company pays taxes on time.					
	The company reports tax documents					

	on time.					
Independence	The company strategy is decided by the family/owner.					
	The company has specific recruitment methods.					
	The company's planning is influenced by the family/owner.					
	Decision-making is based on the family/owner's decision.					
	The company has a distinct separation between family business interests and professional roles.					
Fairness	Family/owner has unlimited access to the daily business operations.					
	The company holds board/family meetings on a regular basis.					
	Family members have limited opportunities to work at the company.					
	There are fair and transparent processes for promoting or hiring family members within the company.					
	There are clear policies regarding family members' participation in company decisions.					
Perceived Performance	The productivity of the company has increase.					
	The trusting relationship between company and employee has increase.					
	The work responsibility has to increase knowledge and confidence					

	in skills.					
	The recruitment of employee on the board and other level are fair					
	The rate of employees' turnover has decreased.					

PAPER NAME

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IN FAMILY OWNED BUSINESSES IN NEP
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