CORPORATE GOVERNANCE PRACTICES IN COMMERCIAL BANK OF NEPAL

A thesis

Submitted By

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CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis entitled "**Corporate Governance Practices in Nepalese Commercial Banks**" has not previously been submitted for a degree nor has it been a part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has written by me under the supervision of Lecturer Mr. Santosh Kumar Ghimiry. In addition, I certify that all information sources and literatures used are indicated in the reference section of the thesis.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "Corporate Governance Practices in Nepalese Commercial Banks" presented by Asmita Syangbo, a 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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This research entitled "Corporate Governance Practices in commercial Bank of Nepal" has been prepared for the partial fulfillment of the requirement for the Degree of Masters of Business Studies. The general purpose of the study is to discuss, examine and analyze the Corporate Governance practices in Commercial Bank of Nepal.

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ABSTRACT

Corporate governance practices are essential to achieving and maintaining the public trust and confidence in the banking system, as a result they are critical to the proper functioning of the banking sector and economy as a whole. However, little attention has being given to corporate governance of banking sector especially in developing economies. This study examines the corporate governance on perceived performance.

There are many dimensions of corporate governance but in this study only five components(transparency, accountability, fairness, discipline and responsibility)are considered as the factor of good corporate governance. The objective of this research is to analyze the impact of corporate governance on perceived performance of the commercial banks of Nepal. The study employed a qualitative methodology. Data was collected through a self-administered survey questionnaire. The questionnaire is adopted from a previous validated survey. The target population consists of commercial banks of Nepal. Simple convenience sampling is used for collection of data from 200 employees.

The results indicate a positive relationship between corporate governance and perceived performance. The study concludes with some brief prospects that the businesses need to realize the importance of good corporate governance for maximizing the perceived performance. This paper may benefit society by encouraging people to contribute more to their jobs and may help them in their personal growth and development. Hence, it is essential for an organization to motivate their employees to work hard for achieving the organizational goals and objectives.

TABLE OF CONTENT

	Page No.
Certificate of Authorship	ii
Recommendation Letter	iii
Approval Sheet	iv
Acknowledgement	v
Abstract	vi
Table of Contents	vii
List of Tables	ix
Abbreviations	x
CHAPTER-I: INTRODUCTION	**1-7**
1.1 Background of the study	1
1.2 Statement of the problems	3
1.3 Research Question	5
1.4 Objective of the study	5
1.5 Significance of the study	5
1.6 Limitations of the study	6
1.7 Organizations of the study	6
CHAPTER-II: LITERATURE REVIEW	**8-32**
2.1 Concept of corporate governance	8
2.2 Review of empirical studies	12
2.3 Review of previous thesis	13
2.3.1 World bank report	22
2.3.2 The organization for Economic Cooperation and Development	23
2.3.3 Corporate Governance Practices in Nepal	25
2.4 Research gap	28
2.5 Theoretical framework	29
CHAPTER-III: METHODOLOGY	**33-40**
3.1 Research Design	33
3.2 Population and Sample	34
3.3 Data collection Instrument	34
3.4 Data Collection Procedures	36
3.4.1 Primary Data Collection	36
3.5 Data Processing Procedure	37

3.6 Data Analysis Tools and Techniques 38

3.6.1 Statistical Analysis 38

3.6.1.1. Descriptive statistics 38

3.6.1.2 Hypotheses 40

CHAPTER-IV: RESULTS 41-59

4.1 Respondent's profile 41

4.1.1Gender of the Respondents 42

4.1.2 Age of the Respondents 42

4.1.3 Marital Status of the Respondents 42

4.1.4 Educational Level of the Respondents 42

4.2 Descriptive Statistics 42

4.3 Inferential Analysis 49

4.3.1 Correlation Analysis 49

4.3.1.1 Relationship between Transparency and Perceived Performance 50

4.3.1.2 Relationship between Accountability and Perceived Performance 51

4.3.1.3 Relationship between Fairness and Perceived Performance 51

4.3.1.4 Relationship between Discipline and Perceived Performance 51

4.3.1.5 Relationship between Responsibility and Perceived Performance 51

4.3.2 Hypothesis Testing 51

4.3.3 Regression Analysis 52

4.4 Major Findings 56

4.5 Discussions 58

CHAPTER-V: CONCLUSIONS 60-63

5.1 Summary 60

5.2 Conclusions 61

5.3 Implications 62

Reference

Appendices

LIST OF TABLE

Table No.	Title	Page No.
3.1	Reliability Test of Dependent and Independent Variables	37
4.1	Distribution of Respondents Profile	41
4.2	Descriptive Statistics of Transparency	43
4.3	Descriptive Statistics of Accountability	44
4.4	Descriptive Statistics of Fairness	45
4.5	Descriptive Statistics of Discipline	46
4.6	Descriptive Statistics of Responsibility	47
4.7	Descriptive Statistics of Perceived Performance	48
4.8	Correlation Analysis	50
4.9	Model Summary	54
4.10	ANOVA[a]	55
4.11	Coefficients[a]	55

ABBREVIATIONS

A	:	Accountability
ADBL	:	Agriculture Development bank Ltd.
BFIs	:	Bank and Financial Institution
BOD	:	Board of Director
CEO	:	Chief Executive Officer
CG	:	Corporate Governance
D	:	Discipline
DEA	:	Data Envelopment Analysis
F	:	Fairness
Ltd	:	Limited
N	:	Number of Respondents
NBL	:	Nepal bank Ltd.
NRB	:	Nepal Rastra Bank
OECD	:	Organization for Economic Cooperation and Development
PP	:	Perceived Performance
R	:	Responsibility
RBBL	:	Rastriya Banijya Bank Ltd.
SBL	:	Siddhartha Bank Ltd.
Sig	:	Significance
SPSS	:	Statistical Package for Social Scientists
Std.	:	Standard
T	:	Transparency

CHAPTER I
INTRODUCTION

1.1 Background of the Study

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate Governance refers to the way in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes decisions. Corporate governance is the key foundation for firms to be more productive and have a long existing product life cycle. The social and economic lives are developed and governed by the specific institutions of governance. Corporate governance is regarded as the key foundation of Organizations to be more productive, governed and controlled. Corporate governance is the System by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

The implication of financial sector governance in developing economies is even far-reaching for following stylized facts. First, banks have an overwhelmingly dominant position in developing economy financial systems, and are dominant engines of economic growth Levine (2004). Second, as financial markets are usually under developed, they are typically the most important source of finance for a majority of firms. Third, they are usually the main depository for the economy's savings. Fourth, many developing economies have recently liberalized their banking systems reducing the role of economic regulation. Consequently, managers of financial institutions have obtained a greater degree of freedom in running their organization. Commercial bank occupies quite an important place in the framework of every economy. It provides capital for the development of industry, trade & business investing the saving collected as deposit. All the economic activities of every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Integrated & speedy development of the country is possible only when competitive banking services reach nooks & corners of the country Olokoyo (2011).

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subject to laws, regulations and the shareholders in general meeting Cadbury commission (1992).

In his most comprehensive sense, corporate governance comprises all the forces that effect on firm's decision making process. It would protect not only the stockholder's rights, but also the bounding agreement and collapsing power of debtors. Corporate governance also gains the commitment of the employees, customers and suppliers. In adding together it is the Power to diffuse the risks by combining all the forces. In recent years, banking sector of Nepal has been transformed from a sluggish and government-dominated sector to a much more fragile, competitive and profitable industry. Different foreign banks have emerged recently which have increased the competition among commercial banks. In order to get competitive edge and to attract more and more customers, banks are focusing on providing better services to the customers Boot and Thakor (2009).

Corporate Governance mechanisms are ways to deal with the agency problems between manager and shareholders and between controlling shareholder and minority shareholders. CG mechanism aims to ensure the minority shareholders rights, monitoring manager actions and replacing poorly performing manager. The financiers give the fund to the manager on the condition that they retain all the residual control right. CG thus answers how the suppliers of finance manage to return some of the profit to them. CG is a field of economics that investigate how to secure/motive efficient management of corporations by the use of designs and legislation. This is often limited to the question of improving financial performance. Adherence to good CG practice will help improve the confidence of domestic investors, reduce the cost of capital and ultimately induce more stable source of financing. The poor governance practices including inadequate disclosure, lack of independent oversight and weak

minority shareholder tend to discourage investment and weaken incentives for efficient management. Addressing the issue of CG, while improving the business environment generally is fundamental in winning the investor confidence and achieving economic stability and growth (Shleifer and Vishnu, 1997).

Corporate governance in financial system aims at promoting healthy market practice and reducing financial anomalies resulting from agency problem. Among various other functions, banking system fundamentally performs an intermediary role in capital formation accepting deposits from customers, raise capital from investors or lenders (supply-side of credit) and then use lend this money to the business ventures and other economic activities (demand side of , buy securities and provide other financial services to customers. Financial system is therefore, believed to financial market that accelerates the performance of engine of growth of an economy. Good corporate governance is a need in financial system in that it controls market distortion from the various stakeholders in the system.

Nepal, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence, and can discourage outside investment.

This study identifies different factors significant to corporate governance in Commercial banks in Nepal to enable the banks to develop strategies to improve the corporate governance in the bank. This will enhance the Bank's competitive position in the banking industry and ensure survival of the bank, especially in this era of keen competition.

1.2 Statement of the Problem

Corporate governance practices are essential to achieving and maintaining the public trust and confidence in the banking system, as a result they are critical to the proper functioning of the banking sector and economy as a whole. However, little attention has being given to corporate governance of banking sector especially in developing economies Lipunga (2014).

The study conducted by Gnawali (2018)to analyze the level and structure of corporate governance in Nepal and determine its effects on financial performance in commercial banks of Nepal found that corporate governance has played the significant role to keep the corporate governance in Nepalese commercial Banks which leads organizational success.

The subject of corporate governance in developing economies has recently received a lot of attention in the literature: credit accrue to the growth prospective of these economies. In addition, noise trading as opposed to fundamentals has been documented to affect markets of these economies Claessens and Yurtoglu (2013). These markets are, in general, less efficient and therefore, demands corporate governance at higher intensity. For development-oriented economies like Nepal, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence, and can discourage outside investment.

This study identifies different factors significant to corporate governance in Commercial banks in Nepal to enable the banks to develop strategies to improve the corporate governance in the bank. This enhances the Bank‘s competitive position in the banking industry and ensures survival of the bank, especially in this era of keen competition.

The study serves as a guide for banks to develop good governance which improves its level of corporate governance in the banks, especially in areas where gaps between expectations and reality are so wide to enhance working environment. The study will serve as a guideline for further research in corporate governance in the banking industry or related field. By virtue of improved guidelines banks can benchmark the policies and strategies for their effective working environment, quality improvement programmers leading to overall improvement in the banking sector and possibly translate to other sectors of the economy.

1.3 Research question

Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence, and can discourage outside investment. In addition to this, the research has tried to find the answers to the following questions.

i. What is the status of Corporate Governance practice in selected Commercial Banks of Nepal?
ii. What is the level of perceived performance?
iii. What is the impact of corporate governance on perceived performance?

1.4 Objectives of the study

The major objective of the study is to examine corporate governance practices in Nepalese commercial bank. The specific objectives of this study are as follows.

i. To assess the status of corporate governance practices in selected Commercial banks of Nepal
ii. To examine the perceived performance.
iii. To analyze the impact of corporate governance on perceived performance.

1.5 Significance of the study

The research will help corporation better understand the importance of corporate governance and its determining factor. Corporate governance covers both the social and institutional aspects of a business. Simply put, it is the system by which organizations are directed and managed. Corporate governance influences how the objectives of a business are set and achieved, how risks are monitored and assessed, and how internal performance is optimized. This research has provided information relating to practice of corporate governance used in commercial banks of Nepal. It has analyzed the actual practices implemented by the banks and its significance to them.

i. It explains the level of corporate governance practice in the Nepalese commercial bank.
ii. It enhances organization view on corporate governance.

iii. It provides literature to the researchers who want to commence further research in this field.

1.6 Limitation of the Study

Each and every research has some limitations. There for the following will be major limitation of the study.

i. The overall study is conducted with reference to few Nepalese commercial banks and may not represent the entire banking industry.
ii. Though the study collected opinions of employee without any bias, the study may not be representative enough because of the small sample.
iii. The analysis of this research is based on primary data, so any distortion of the reality from this study may be due to the business of the respondents.
iv. There are many components that are affecting the corporate governance but this study is considering only some limited components as independent variables.
v. This study has only focused on bankers views on perceived Performance but it does not consider the view of costumer.
vi. Only limited sample have been taken which may not be generalized to all sectors.

1.7 Organization of the Study

The proposed study is organized and described into five chapters as follows:

Chapter I: Introduction

The first chapter of the research project provides basic information related to the research topic and outline of the study. It showcases background of the study, statement of problem, objectives of the study, significance of the study, limitation of the study and operational definitions/assumptions.

Chapter II: Literature Review

This chapter provides related words, definitions, and findings on the related topic from other researchers, journals, papers, and similar works which are very much important on guiding the research. Besides, this chapter includes theoretical framework around which the whole work have been put together.

The focus of this chapter is a literature review on corporate governance with respect with the variables of corporate governance.

Chapter III: Methodology

This chapter presents the research design and methodology utilized in this research. The research design and methodology includes the planned methods used while conducting the research which has helped to guide the research towards its main findings and conclusion. It includes information on research design, data analysis methods, questionnaire, population and sample size, sampling techniques, data collection instrument, and the sources of data exclusively meant for this Project.

Chapter IV: Results

The fourth chapter deals with the main results of the study. After the collection of data and processing it is necessary to showcase the result and analyze the findings. Hence, this chapter includes presentation of data and analysis of the findings using diagrammatic representations such as pie-charts, bar-graphs as well as mathematical and statistical tools like descriptive analysis, correlation analysis and regression analysis.

Chapter V: Conclusion

This chapter outlines the discussion of results and suggestions for further research. This is final chapter of the research work; hence it revolves around showcasing summarized report of whole work. It focuses on concluding the work highlighting the main findings as well as making recommendations and providing guidelines for the prospective users, readers and future researchers.

References and appendix have also been incorporated at the end of the study.

CHAPTER II
LITERATURE REVIEW

The academic literature on corporate governance examines the efficiency of alternative ownership structures and alternative structures for the board of directors. While there is mounting evidence of the failure of certain governance structures to motivate managers to increase firm's performance, the empirical evidence to date is mixed and gives little coherent evidence for the shape of an optimal governance structure.

2.1 Concept of Corporate Governance

Historically, the literature of corporate governance is enmeshed with the study of economics with references to "the theory of the firm". These were the initial attempts to understand the limitations of the perfect competition, macroeconomic model of market behavior. The literature set out the framework for the present day discussion and debate on how corporations behave and how they can be governed. Every life on earth, every little being to its atom, follows the rules bound by the creator. Without framework or any guidance no existence would able to live on peace. Any financial institution needs a structure to rise and guidance to follow. Corporate governance does the work as the guidance.

Smith (1776) was the first economist who foresaw the problems of the modem organization that had a structure, which separated ownership and control, when he wrote: The directors of such joint-stock companies however being the managers of other people's money rather than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance which the partners in private copartners frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honor, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.

Berle and Means (1932) suggested that what has now become the most important classic socio-scientific, treatise on the widely-held, public company. "The Modem Corporation and Private Property" published in 1932, set the debate on corporate

governance rolling, focusing on the separation of ownership and control in large corporations. They described the modem corporation as: “Unlike small, private companies, these large companies raised capital from the wealth of numerous small private investors. The controlling managers of such organizations in many cases held a small or negligible share in the ownership capital of the firm. They derived their income mainly as a fixed salary and not a variable return based on the performance of the firm. The ownership of these firms, meanwhile, was increasingly vested in the hands of a multitude of small investors, who individually had little incentive to monitor the performance of the firm closely”.

Coase (1937) showed that traditional basic microeconomic theory was incomplete because it only included production and transport costs, whereas it neglected the costs of entering into and executing contracts and managing organizations. Such costs are commonly known as transaction costs and they account for a considerable share of the total use of resources in the economy. Thus, traditional theory had not embodied all of the restrictions, which bind the allocations of economic agents. When transactions costs are taken into account, it turns out that the existence of firms, different corporate forms, variations in contract arrangements, the structure of the financial system and even fundamental features of the legal system can be given relatively simple explanations. By incorporating different types of transaction costs, Coase paved the way for a systematic analysis of institutions in the economic system and their significance.

Corporate governance builds only to governing the corporate entity. The responsibility of the board is to oversee the functions run smoothly, so that the organization well runs to rise. Corporate governance is becoming the top issue for tea-table discussion now days. Philosophers and researchers are concerning about its succession. Most of the financial institutions have already been adapted it. It can be concluded that corporate governance is an important part of the financial institutional body and also for its success.

The impending loss of control of owners of capital over the firms was anticipated by Galbraith (1973) wrote about the inability of these “outsiders” (shareholders) to acquire sufficient expertise to be able to pass informed judgment on the merits of managers’ strategic decisions. Not only were shareholders physically detached from day-to-day affairs of the business, but they were also excluded from what Galbraith

termed the corporate "techno structure" : the collective body of corporate officers (including senior managers themselves), a highly-trained group of experts, who command exclusive strategic control over the firm's ongoing productive operations on account of their unique intellectual capital. Galbraith believed that, in the modem corporate economy, where operations were increasingly technical and specialized in nature, the real power within the large company rested with those that possessed the relevant knowledge, rather than the wealth, that comprised the business, thereby excluding shareholders from the realm of effective corporate control. The major body of literature focuses on this loss of control by security owners/shareholders/suppliers of finance. What are the ways to overcome this basic issue of principal-agent asymmetry of information & knowledge? What methods can be used to align the interests of principals and their agents? Can managers be disciplined? And who or how will they be disciplined?

It is believe that the World wide privatization wave, Mergers and takeovers, deregulation and capital market integration, Scandals and failures at major corporations are some of the strong reasons that imitated debate over Corporate Governance all over the world. In 1991 the Government of United Kingdom appointed the Cadbury committee with a broad mandate to address the financial aspects of corporate governance. The committee was chaired by Sir Adrain Cadbury, CEO Cadbury Confectionery. In December 1992 the committee issued its report, the cornerstone of which was the code of Best practice, which presents the committee's recommendations on the structure and responsibilities of corporate boards of Directors.

According to Freixas and Rochet (1997), the specificity of banks lies in the fact that their creditors are also their customers, and this entails a much more serious free rider problem related to the monitoring of widely held banks. Their reasoning goes as follows. While in non-financial firms "professional investors", such as, banks, venture capitalists or "informed" private investors, hold the majority of the debt; in the case of banks the debt is mostly held by uninformed, dispersed small agents (mostly households) that could poorly monitor the banks' activities. To make things worse, these securities can be used as a means of payment (which moderates the free rider problem involved in monitoring), and the capital structure of banks is characterized

by a substantially higher proportion of debt than in non-financial firms by Freixas and Rochet (1997).

Micro-economists use agency theory to study the problems of motivating and controlling cooperative action Scott (1998). Their primary focus is the situation where one party (the principal) seeks some outcome but requires the assistance of an agent to carry out the necessary activities (e.g., supervisor-subordinate). It is assumed that both parties are motivated by self-interest and that these interests may diverge Scott (1998).

A major corporate governance challenge for banks involves the principal-agent problem and how it can undermine financial stability when the incentives of bank management and directors are not aligned with those of the owners of the firm Kern (2004). This may result in different risk preferences for management as compared to the firm's owners, as well as other stakeholders, including creditors, employees, and the public. Because of high transaction costs and institutional barriers, aligning the interests of these groups may be difficult, if not impossible, without regulatory intervention. At the same time, banks are both opaque and complex.

Anderson and Campbell (2004) stated that corporate governance alone is not the cause of the current financial crisis. However, Corporate Governance could have prevented some of the worst aspects of the crisis had effective governance operated throughout the period of time during which the problems were developing and before they crystallized. Furthermore, effective Corporate Governance could have helped to reduce the catastrophic impacts that the global and national economies are now suffering.

The principal objective of a business enterprise is to generate economic returns to its owners. Although the link between the forms of governance and economic performance is debated, good corporate governance practices provide an important framework for a timely response by a corporation's board of directors to situations that may directly affect stockholder value. Corporate governance is not an abstract goal, but rather exists to serve corporate purposes by providing a structure within which stockholders, directors and management can pursue most effectively the objectives of the corporation. The absence of good corporate governance, even in a

corporation that is performing well financially, may imply vulnerability for stockholders because the corporation is not optimally positioned to deal with financial or management challenges that may arise (The Business Roundtable, 2005).

Effective corporate governance requires a proactive, focused state of mind on the part of directors, the CEO and senior management, all of whom must be committed to business success through maintenance of the highest standards of responsibility and ethics. Good governance is far more than a check list of minimum board and management policies and duties. Even the most thoughtful and well-drafted policies and procedures are destined to fail if directors and management are not committed to enforcing them in practice. A good corporate governance structure is a working system for principled goal setting, effective decision-making and appropriate monitoring of compliance and performance. Through such a vibrant and responsive structure, the CEO, the management team and the board of directors 19 can interact effectively and respond quickly to changing circumstances within a framework of solid corporate values, to provide enduring value to the stockholders who invest in the enterprise.

2.2 Review of Empirical studies

The theory developed by Jensen and Meckling (1976) asserts that the wide separation gives the manages a leeway to pursue private interests which may lead to inefficiency, expropriation of corporate cash flows, assets and loss of market value of corporate entities. Agency theory identifies corporate boards as a mechanism to protect shareholders interests and to ensure increase in firm market value. According to Jensen and Meckling (1976) a corporate board can effectively play its role if its size is small, has diverse skills, majority members are outside directors and the position of Chairman and CEO are separate. The role of corporate boards is also specified to include: hiring and monitoring managers, protecting shareholders' interests, increasing corporate value and setting strategies in a firm .Consequently, many countries have developed codes of best governance practices, using the agency theory principles. Agency theory is therefore important to this study as it identifies the ideal corporate governance structures and practices that should be adopted by privatized companies.

Jensen and Meckling (1976) in their paper examined the relationship between principal and agent within the theory of the firm. Agency theory has identified the existence of two agency relationships. First, is the manager-shareholder relationship and second is the shareholder-debt holder relationship. In both of these relationships, the interests of the agent and principal are separated, imposing agency costs. It is too costly to align the interests of shareholders and management perfectly. The costs incurred after monitoring and bonding are characterized as the residual loss. Jensen and Meckling developed the idea that managers' pursuit of their own self-interest causes them to choose a level of investment different from the optimum level for a completely manager-owned firm.

2.3 Review of Previous Thesis

Theories of corporate governance focus on the board of directors as a mechanism to reduce agency problems induced by the wide separation between ownership and control. The agency theory recognizes that in a modern corporation, there is a wide separation between ownership and management, resulting in the conflict of interests between the owners and the agents.

A turning point in the discussion on corporate governance and the principal-agent issue was the work by Fama (1980) who questioned the foundation of the concept of a firm and its ownership. Ownership of capital should not be confused with ownership of the firm. Each factor in a firm is owned by somebody. The firm is just the set of contracts covering the way inputs are joined to create outputs and the way receipts from outputs are shared among inputs. In this “nexus of contracts” perspective, ownership of the firm is an irrelevant concept. Dispelling the tenacious notion that a firm is owned by its security holders is important because it is a first step toward understanding that control over a firm’s decision is not necessarily the province of security holders. Fama(1980) analysis that for the purposes of the managerial labor market, the previous associations of a manager with success and failure are information about his talents. The manager of a firm, like the coach of any team, may not suffer any immediate gain or loss in current wages from the current performance of his team, but the success or failure of his team impacts his future wages, and this gives the manager a stake in the success of the team Corporate governance is the system by which companies are directed and controlled. Boards of directors are

responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.

The study by Lipton and Lorch (1992) presented a proposal for improved corporate governance that could be implemented voluntarily by business corporations and their boards, without relying on changes in laws, regulations, court decisions, or shareholder behavior. The central elements of the proposal involve: limiting board size; setting a two to-one ratio of independent to inside directors; increasing the time directors spend on board matters, including an annual two or three day strategy session; annual evaluation of the CEO by the outside directors; selecting a lead outside director; improving the flow of information to the board; systematically reviewing corporate and management performance against goals; creating an annual forum for the board to meet with major shareholders; and providing a special report to shareholders, and access to the proxy statement for major shareholders, in the event of unsatisfactory long-term results. The Board's actions are subject to laws, regulations and the shareholders in general meeting." Cadbury commission (1992). In his most comprehensive sense, corporate governance comprises all the forces that effect on firm's decision making process. It would protect not only the stockholder's rights, but also the bounding agreement and collapsing power of debtors. Corporate governance also gains the commitment of the employees, customers and suppliers. In adding together it is the Power to diffuse the risks by combining all the forces.

According to Tricker (1994), CG is an umbrella term that includes specific issues arising from the interactions among senior management, shareholders, BOD and other corporate stakeholders. In its narrowest sense, the term may describe the formal system of accountability of senior management to the shareholders. At its most expansive sense, the term is stretched to include the entire network of formal and informal relations involving the corporate sector and their consequences for society in general.

In the study, the author Margaret Blair (1995) has expressed the opinion that managers view employee wages as a cost to be reduced, yet, the return on firm-specific human capital is part of what society as a whole should want to see maximized. Employees are much more likely to participate in cost cutting and innovation if they are confident they will share in the wealth created. Corporate governance discussions need to recognize the importance of employees to wealth creation. Their firm specific investments should be recognized through formal compensation schemes organizational forms or other arrangements that place significant amounts of the company's equity under the control of the at-risk stake-holders and that assign control responsibilities commensurate with their equity stake to this group.

Countries make use of different mechanisms to solve this problem. The United States and the United Kingdom have a governance system characterized by a strong legal protection of investors and the lack of large investors, except when ownership is concentrated temporarily during the takeover process. In Continental Europe particularly Germany and Japan corporate governance relies more on large investors and banks to monitor managers; legal protection for investors is weaker and hostile takeovers very uncommon. What we see in the rest of the world is heavily concentrated ownership in families, some outside investors and banks; and an extremely limited protection of investors. Legal protection of investors and concentration of ownership are considered complementary approaches to corporate governance. All successful governance models (Anglo-Saxon, German or Japanese) are characterized by protecting efficiently at least some kind of investors.

Shleifer and Vishny (1997) raised fundamental questions about the agency theory: what are the ways of ensuring that the separation between ownership (shareholders) and control (managers) does not disadvantage the owners? How do the owners make sure that the managers do not steal the capital they supply? Or invest it in bad projects? How do suppliers of finance control managers? In their path-breaking survey of corporate governance around the world, they show clearly that while product market competition is probably the most powerful force towards economic efficiency in the world, it is doubtful that it alone can solve the problem of corporate governance. The people who sink the capital need to be assured that they get back the

return on this capital. The corporate governance mechanisms provide this assurance. Their study concluded that a good corporate governance system should combine some type of large investors with legal protection of both their rights and those of small investors.

Reddy and Raju (2000) mentioned that corporate governance is a journey for which a course has to be chartered, procedures have to be evolved and the best practices have to be developed to ensure effectiveness for the purpose it is intended. The stakeholder is the centre of corporate activity. The employees, customers, creditors, neighbours, suppliers, competitors, governments, local authorities, management and citizens, constitute its firmament or life space. Accountability, equity in the advancement of competing interests and value creation for the stakeholder are the focus areas.

Corporate governance comprises all the forces that effect on firm’s decision making process. It would protect not only the stockholder’s rights, but also the bounding agreement and collapsing power of debtors. Corporate governance also gains the commitment of the employees, customers and suppliers. In adding together it is the Power to diffuse the risks by combining all the forces.

In the study there is empirical support for the hypothesis that there is a positive relationship between the levels of corporate governance quality across firms and the relative efficiency levels of these firms. This hypothesis is related to Leibenstein’s idea of X-efficiency. The data envelopment analysis (DEA) estimator to obtain proxies for X-efficiency of firms in the sample and then analyze them with respect to different ownership structures by comparing distributions and aggregate efficiencies across different groups. They also used truncated regression with bootstrap, following Simar and Wilson Estimation and influence in two stage, semi-parametric models of production process, Simar and Zelenyuk (2003) to infer on relationship of inefficiency to various indicators of quality of corporate governance, ownership variables, as well as industry and year specific dummies.

According to Arun and Turner (2004), corporate governance of banks in developing economies is important for several reasons. First, banks have dominant position in developing-economy financial systems and are important engines of economic growth. Second, banks in developing economies are typically the most important

source of finance for the majority of firms. Third, banks in developing countries are usually the main depository for the economy's savings. Fourth, many developing economies have recently liberalized their banking systems through privatization/disinvestments and reducing the role of economic regulation. Consequently, managers of banks in these economies have obtained greater freedom in how they run their banks.

Lusaka (2005) suggested that corporate governance is the system of accountability among shareholders, the boards of directors and the management of corporate entity. For achieving strategic corporate objective decision making process must be held accountable. Furthermore, he also encompassed the essentials of good corporate governance like; fairness, transparency, accountability and responsibility are least standards which can offer maximum protection from financial crisis and can intensify the access to capital. One more developing inspection reports that transparency, independence, accountability, discipline, fairness and social responsibility are major principles in good corporate governance.

This study by Haniffa and Hudaib (2006) investigates the relationship between the corporate governance structure and performance of 347 companies listed on the Kuala Lumpur Stock Exchange (KLSE) between 1996 and 2000. Result shows board size and top five substantial shareholdings to be significantly associated with both market and accounting performance measures. In addition, it was found that there is a significant relationship between multiple directorships and market performance while role duality and managerial shareholdings are significantly associated with accounting performance. The result is robust with respect to controls for gearing, company size, and industry membership and growth opportunities. Researches also explore the endogeneity in the determination of internal governance structures in Malaysia by using a different research method. Semi-structured interviews with those involved in the overseeing of the governance structures within the company may enhance our understanding of governance structures appropriate for adoption.

Good Corporate Governance is now widely recognized as an essential driver of establishing an attractive investment climate characterized by competitive companies and efficient financial markets. The absence of good CG may not only disrupt corporate operations but also have a far reaching impact on the economy overall.

Anwar (2009) argues the U.S financial crisis occurred due to regulatory governance failures. He further describes a company as non-compliant when it fails to comply with the CG codes and creates opacity in place of transparency, accountability, monitoring and oversight of their own managerial practices.

The study by Fisman, Khurana and Martenson (2009) mentioned that the existing model is fundamentally adversarial, rooted in the paradigm of principal-agent conflict. At its base is an image of governance as a never-ending struggle between board members and executives—"principals" who guard the organization's resources but have limited information to "monitor" how these resources are used and "agents" who have insider knowledge and control the information-filtering apparatus of the organizations. Many of the concepts and ideas in this traditional model are shaped by a long history of governance failure and organizational pathology. It suffices as a solution to the challenge of meeting legal compliance standards through formal systems, but they believe it utterly fails to show how to create a governance system that supports organizational effectiveness. They propose a framework that gives equal weight to creating a governance system whose effectiveness is measured by the achievement of the organization's mission or purpose. In the article, they argue that the reluctance to evaluate an organization's governance against an organization's stated mission, coupled with a narrow focus on a rules-based approach to governance, are jointly responsible for the persistence of problems in governance performance, despite decades of high-priority attention.

Miles (2010) indicated that Anglo American model is based on normative free market principles relies on various pre-requisites for its successful operation, guides about corporate governance that it has focus on the association between company directors and shareholders. To alleviate corporate governance problems different system has been adopted under the Anglo American governance model to stream line the benefits of directors concerned to shareholders. The Model focuses first on director’s independency as it is integral part of corporate governance control because these are the eyes and ears of shareholders and it can invite a constituent of objectivity for internal communication of company. Secondly, it emphasis on independency not only because, it can help in internal discussion but also due to commandment usually consider board of directors liable for different integral duties of company.

Llyas and Rafiq (2012) mentioned that the corporate governance mechanisms in the Pakistan are normally thought to be less important to achieve organizational success. The research is aimed to suggest the results to commercial banks working in Lahore as banks are the central institutions for country's economy. By enduring the good corporate governance organizations could enlarge the circumstances where management can convince the employees particularly and shareholders generally to capture long term organizational gains. This research paper infers that corporate governance has become surprisingly the emerging concept in rising and competitive markets. This concept has also become a constraint in the innovative and emerging market to adopt readily changes in market. The study used five point Likert scale questionnaire to measure the corporate governance in banking sector of Pakistan. This empirical study suggests that the corporate governance has widespread role in organizational success.

The results suggest that discipline, social awareness, accountability, fairness and responsibility have significant effect on organizational success. However, effect of discipline and social awareness is higher than accountability, fairness and responsibility. Moreover, the study shows that independence and transparency do not effect on organizational success significantly. The study also suggested that Strategy makers should also focus on public policy, ethical behavior in organization, company culture that prohibits the employment of under-aged, responsibility of workers, fairness in record keeping and in selection criteria. Generally top management should take attention toward corporate governance in return to gain customers delighters which insure the overall organizational success.

Desoky and Mousa (2012) carried out the study on corporate governance practices: Transparency and disclosure evidence from the Egyptian exchange that focused on the impact of firm's transparency and disclosure as the main pillar of Corporate Governance. The main objective of this study was to evaluate the progress of a number of aspects of corporate governance practices by listed companies on the Egyptian exchange. To achieve the study's objectives, 12 factors were selected to be used in the evaluation of the progress of corporate governance. In addition to factors selected, a transparency and disclosure index of 65 items was used. This study employed statistical analysis to examine the relationship between firm characteristics

from one side and transparency and disclosure from the other. The sample composed of 100 publicly traded companies and among these 100 companies there was one commercial bank, which was excluded from the sample because of different regulations imposed by the Central bank of Egypt. Similarly, to achieve the main objectives of the study, two indexes were developed. The first index “CG features Index” was developed to provide more description about progress of some aspects of CG practice by listed companies in the EGX. The second index “T & D Index” was developed to investigate the level of transparency and disclosure of financial and non-financial information by listed companies in the EGX as main pillars of CG. The major findings of the multivariate analysis was that there is a significant positive association between the dependent variables from one side and four of the independent variables namely foreign firm, firm size, audit firm from the other. And findings of the multivariate analysis were consistent with those of the multivariate analysis especially for results related to the independent variable of foreign listing and firm size.

The study by Tuteja and Nagpal (2013) explored corporate governance in banks as distinct concept that has assumed importance globally over time. Subsequently, the paper reviews the current state of corporate governance in India and explores the scope for improvement of the same. The study eventually links both the assessments and places factors critical for evaluation of corporate governance of banks in the Corporate Governance Index. The benchmark for the Index was Clause 49 of Listing Agreement of the Stock Exchanges in India. The Index thus formulated consists of essential factors like board of directors, audit committee, remuneration committee, nomination committee, risk management, related party transactions and disclosures. These factors were delineated further by defining sub-elements under each head. These sub-elements were assigned individual scores on the basis of review of literature performed while selecting factors. This study also provides a guideline to academicians, practitioners and policymakers for evaluating quality of corporate governance of an Indian bank.

Htay (2012), studied on corporate governance and strategic information disclosure in Malaysian listed banks: Panel data analysis which examined the impact of corporate governance on strategic information disclosure of Malaysian listed banks by using a

panel data analysis. The sampled included the 12 listed companies whose main activity is banking from 1996 until 2005. This study observed that the governance is a very important organ of a corporation, which is more essentially required in the banking sector in order to have an influential power on information disclosure of the annual reports. The aim of this paper was to investigate the impact of corporate governance on the strategic information disclosure of the banks. The total number of observations was 120 observations. The main statistical method used in this study was panel data analysis (generalized least square method). This research finding showed that separate board leadership structure, higher proportion of independent non-executive directors on the board, higher board size, lower proportion of director ownership, lower proportion of block ownership and lower proportion of institutional ownership have more strategic information disclosure and hence, the findings from board size, block ownership and institutional ownership are not in line with the expectation derived from the agency theory.

In the study by Kar and Sarker (2014) Corporate Governance is an important effort to ensure accountability and responsibility and is a set of principles, which should be incorporated into every part of the organization. Financial institutions like banks have a significant role to play in the economy of any country. Banking sector should follow the Corporate Governance codes for Bangladesh. So, the paper had tried to evaluate the present scenario of Corporate Governance practices by the private banks in Bangladesh. The study has been conducted to attain some objectives. The primary objective of the study is to evaluate the practices of Corporate Governance codes by the Private Commercial Banks of Bangladesh. In order to do the study, the major issues were focused like rights and disclosure of information, disclosure and transparency, board issues, disclosure and transparency, financial reporting and HRM practices. The study also mentioned that the banking sector of Bangladesh is becoming stronger day by day and it is playing a pivotal role in the volatile economy of this country to become Bangladesh one of the growing economies of the world in near future. So to be more effective and to put more contribution for the betterment of Bangladesh, the banking sector should follow the CG codes properly to bring the authenticity in its operations and to bring the faith of the stakeholders as well as the people of Bangladesh.

The study by Afolabi and Dare (2015) examined the Issues and challenges around Corporate Governance in the Nigerian Banking Industry. Data were sourced from survey questionnaire. The study suggested lack of presentation of information is common banks in pre-consolidation than post-consolidation era, frauds, override of internal control and non-adherence to limit of authority in a bid to meet set targets and recapitalization of bank play a vital role in promoting effective corporate governance. In addition, lack of effective corporate governance results to the failure of banks in Nigeria. The study recommends that promoting the culture of whistle blowing, promoting business ethics through moral education; strengthen the financial system to encourage compliance with the code of corporate governance as well as establishing strong anti-fraud controls that would serve as deterrents to fraudsters at every level within the deposit money banks. As a whole, the paper makes a contribution to the existing literature on the state of corporate governance development in the Nigerian banking sector, the impacts of the banking regulations and the efforts put in place at ensuring that the banks are well governed.

2.3.1 World Bank report

Banks are frequently very heavily regulated. Because of the importance of banks in the economy, because of the opacity of bank assets and activities, and because banks are a ready source of fiscal revenue, governments impose an elaborate array of regulations on banks. At the extreme, governments own banks. Of course, banking is not the only regulated industry and governments own other types of firms. Nevertheless, even countries that intervene little in other sectors tend to impose extensive regulations on the commercial banking industry. Furthermore, the explosion of international standards through the BIS, the IMF, and World Bank virtually assures heavy government involvement in the banking industry. As described below, however, many government regulations adversely distort the behavior of bankers and inhibit standard corporate governance processes. In terms of ownership, the World Bank (2001) calculates that in the late 1990s 40 percent of the world's population lived in countries where the majority of banks assets were held in state controlled banks. When the government is the owner, this changes the character of the governance of banks. The pervasive hand of government regulation and ownership of banks warrants an independent discussion of the governance of banks.

World Bank observance standards and codes (2005) elucidates that awareness of the importance of corporate governance is growing in Nepal. The central bank has introduced higher corporate governance standards for banks and other financial companies as part of a wider program of financial sector reform. Accounting and auditing Standards are being developed. Also a number of draft laws have been prepared that, if passed and implemented, should deepen and accelerate the reform process. However, the legal framework contains large and significant gaps. Critical institutions, including the securities board and company registrar, have few resources and little authority. Most importantly, political uncertainty and the current security situation have weakened the economy and delayed the passage of draft legislation.

Emerging market countries like Nepal improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market Vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence, and can discourage outside investment. Over the past several years, the importance of corporate governance has been highlighted by an increasing body of academic research (World Bank, 2005). Similarly, impact of improvements in corporate governance quality on traditional measures of real economic activity—GDP growth, productivity growth, and the ratio of investment to GDP—is positive, significant, and quantitatively relevant, and the growth effect is particularly pronounced for industries that are most dependent on external finance (IMF, 2006).

2.3.2 The Organization for Economic Cooperation and Development (OECD)

Another contrasting view on role of independency in good corporate governance has been described by OECD. The OECD Principles of Corporate Governance were first published in 1999. These principles were intended to provide guidelines in assisting governments in improving the legal, institutional and regulatory framework that underpins corporate governance (OECD 1999). It indicates that efficient corporate governance mostly relies upon the severances of power connecting a company's managers, directors and majority and minority shareholders. This study holds accountable to manger under the self-governing oversight by the board of directors and an external auditor. Good economic and political governance can result of good

economic outputs, and for the business prosperity, good corporate governance is significant which can be assured by accountability. These principles were not binding, but rather provided guidelines for each country to use as required for its own particular conditions. These principles were published as the first international code of corporate governance approved by governments. Since then, they have been widely adopted.

The liberalization and deregulation of global financial markets led to efforts to devise international standards of financial regulation to govern the activities of international banks and financial institutions. An important part of this emerging international regulatory framework has been the development of international corporate-governance standards. The OECD has been at the forefront, establishing international norms of corporate governance that apply to both multinational firms and banking institutions. In 1999, the OECD issued a set of corporate governance standards and guidelines to assist governments in their efforts to evaluate and improve the legal, institutional, and regulatory framework for corporate governance in their countries. The OECD guidelines also provide standards and suggestions for "stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance." Such corporate-governance standards and structures are especially important for banking institutions that operate on a global basis. To this extent, the OECD principles may serve as a model for the governance structure of multinational financial institutions.

In its most recent corporate governance report, the OECD emphasized the important role that banking and financial supervision plays in developing corporate-governance standards for financial institutions. Consequently, banking supervisors have a strong interest in ensuring effective corporate governance at every banking organization. Supervisory experience underscores the necessity of having appropriate levels of accountability and managerial competence within each bank. Essentially, the effective supervision of the international banking system requires sound governance structures within each bank, especially with respect to multi-functional banks that operate on a transnational basis. A sound governance system can contribute to a collaborative working relationship between bank supervisors and bank management.

The OECD recommends that every member's corporate governance framework incorporate the board of directors' strategic focus in their disclosures. This would include, but not be limited to, the review of the monitoring and the decision making activities of the firm's management. The framework must explicitly state that the board of directors is directly accountable to the firm and its shareholders. The board of directors is also responsible for ensuring that the firm has established and implemented a training program to support high ethical standards within the firm. It is also expected that within the OECD member's corporate governance framework a detailed process outlining the selection and the compensation and evaluation of the board of directors is disclosed to shareholders. The board of directors is ultimately responsible for ensuring the integrity of the financial information disclosed by the firm. The board of directors also needs to have a "sufficient" number of independent board members who are not executives of the firm. In 2002, the OECD brought together representatives of 30 countries as well as other interested countries in reviewing the existing five principles. The new principles (released in May 2004) were reworked from five to six principles. The principles cover the following areas:

a. Ensuring the basis for an effective corporate governance framework,
b. The rights of shareholders and key ownership functions,
c. The equitable treatment of shareholders,
d. The role of stakeholders in corporate governance,
e. Disclosure and transparency,
f. The responsibilities of the board.

The new principles were issued in response to the numerous corporate failures that have occurred throughout the world. These scandals have undermined the confidence of investors in financial markets and company boardrooms. The revised principles emphasize the importance of a regulatory framework in corporate governance that promotes efficient markets, facilitates effective enforcement and clearly defines the responsibilities between different supervisory, regulatory and enforcement authorities.

2.3.3 Corporate Governance Practices in Nepal

In this connection, Nepalese financial sector is in the course of consolidation in respect with the organized sector of the economy. Corporate governance matters even more in this phase of development. Although the subject of corporate governance in

developing economies has recently received a lot of attention in the literature (Oman, 2001; Goswami, 2001; Lin, 2001; Malherbe & Segal, 2001), it has been almost ignored by researchers (Caprio& Levine, 2002). In Nepalese context also, in terms of numbers and scope of studies, research in the area of corporate governance needs to be emphasized.

Emerging market countries like Nepal improving corporate governance can serve 3 number of important public policy objectives. Good corporate governance reduces merging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence, and can discourage outside investment. Over the past several years, the importance of corporate governance has been highlighted by an increasing body of academic research (World Bank, 2005). Similarly, impact of improvements in corporate governance quality on traditional measures of real economic activity-GDP growth, productivity growth, and the ratio of investment to GDP-is positive, significant, and quantitatively relevant, and the growth effect is particularly pronounced for industries that are most dependent on external finance (IMF, 2006).

Corporate governance reforms are of great significance for developing countries like Nepal, to gain a sustained effort to attract Foreign Direct Investment and Foreign Portfolio Management, and to mobilize greater saving through capital market Sapkota (2008). The implementation of the governance principles should be proportionate to the size complexity, structure, economic significance, and risk profile of the bank and the group to which it belongs. For development-oriented economies like Nepal, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence, and can discourage outside investment.

Pradhan and Adhikari (2009) studied the effect of fundamental variables on corporate governance in Nepal and the relationship between corporate governance variables such as institutional ownership, public capital and public director etc. with

performance of the firm. Pooled cross sectional data for 14 enterprises other than financial institutions were studied using total of 98 observations. The study concluded that the company conducting AGM on time, financial statement submitted on time and appointment of 'A' class auditor had higher return on capital employed and MPS. In addition, increase in the percentage of institutional ownership, public capital and public director also increased performance of the firm. Furthermore, increase in size of firm led to increase in return and MPS. It was recommended that inadequate corporate disclosure in annual reports is likely to cause wide fluctuations in price of securities. In addition, in order to enhance the firm performance healthy corporate governance practices and compliance with international guidelines were also suggested to Nepalese firms.

Bad corporate governance was also one of the many reasons of crisis of Nepalese financial sector. Now let us review the causes of Nepalese financial sector crises happened during last one decade. First it was Nepal Development Bank to go into liquidation process and then Samjhana Finance followed suit. It is the second instance since 2009 when the central bank took a bold step to initiate the liquidation process of Nepal Development Bank. Gurkha Development Bank and United Development Bank were declared crisis-ridden. One common factor behind the misfortune of these institutions is bad corporate governance. Gurkha Development Bank fiasco is due to the tussle between promoters. Sapkota (2011) strongly argue that, due to the ignorance by the central bank on the unhealthy competition among BFIs, questionable lending to few sectors, governance practices by BFIs, the new BFIs pop up without even evaluating whether the economy needs so many and ultimately took damage control measures of late.

However, the high concentration of corporate ownership structure and dominance of family business in corporate affairs have become major constraints in exercising good corporate governance in Nepalese corporate sector .According to Armstrong and Spellman (2009), shareholders should act as owners of the corporations, is only through corporate governance which the interests of the o confidence can be restored governance abiding e-abiding by the letter, and the spirit of regime in compact-that trust of the owners are a director's reliable .

According to Stiglitz (2009), banks have the unique ability to attract funding in the form of deposits that are fully insured up to a limit and thus insensitive to k form of re fully insured up to a limit and thus insensitive to risk. Moreover, unhealthy banks are taken over by regulators instead of having to face bankruptcy in public courts. Assets are subsequently sold to another institution or in case multiple bidders, to the highest bidder bankruptcy.

Corporate governance variables are represented by board size, independence and diligence, Audit Committee size, independence and diligence and ownership structure. The nonperforming loan variable is used for bank's efficiency. The regression analysis is used to examine the relationship between corporate governance and efficiency of bank. The findings show that bigger board and audit committee size and lower frequency of board meeting and lower proportion of institutional ownership lead to better efficiency in the commercial banks.

2.4. Research gap

From the foreigner review of literature, it can be understood that though many studies have been conducted on different aspects of employee relations and perceived performance in India and even in foreign countries, a study specifically for perceived performance of employees of Nepalese banking sector in Nepal is missing in literature. Moreover, till date, no research has been conducted on any aspects of perceived performance of employees of banking sector in Nepal.

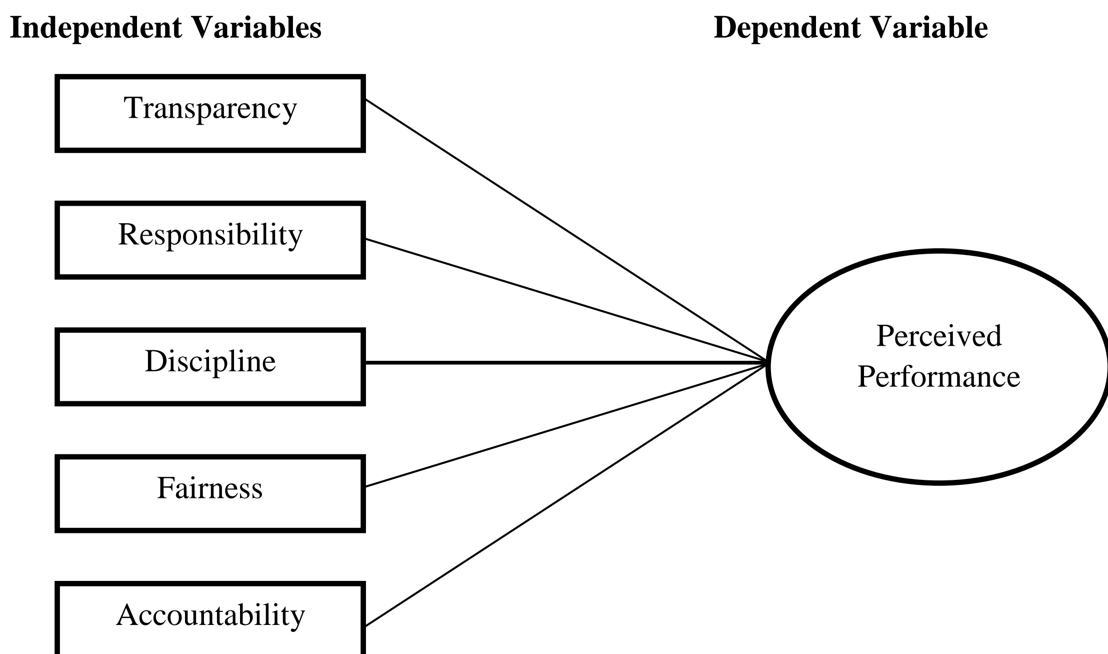
Hence, the present study examines empirically the vital issues relating to the perceived performance of employees in selected banks in Nepal and suggests measures to make them more effective contributions for the efficiency and success of banking sector in Nepal.

Previous research has taken other four factors to measure perceived performance where asthis research has taken different five aspects of corporate governance such as accountability, transparency, fairness, discipline, and responsibility all together to determine the impact of perceived performance which previous research has not included. And this research focus to the hypothesis testing part included tables, mean, standard deviation, t- test, Pearson's correlations and linear regression which previous research has not focused.

2.5 Conceptual Framework

Figure 2.1 shows the theoretical schema of this study depicting the different factors responsible for corporate governance. This framework indicates perceived performance as dependent variable and contributing factors - Transparency, Responsibility, Discipline, Fairness and Accountability are dimensions to measure the corporate governance a independent and construct variable. Below figure is the schematic representation of factors that guide our research question.

Fig. 2.1: Conceptual framework



Source: Credit Lyonnais securities Asia (CLSA).

1. Transparency

Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate governance. Corporate transparency describes the extent to which a corporation's actions are observable by outsiders. This is a consequence of regulation, local norms, and the set of information, privacy, and business policies concerning corporate decision-making and operations openness to employees, stakeholders, shareholders and the general public. From the perspective of outsiders, transparency can be defined simply as the perceived quality of intentionally shared information from the corporation.

Recent research suggests there are three primary dimensions of corporate transparency: information disclosure, clarity, and accuracy. To increment transparency, corporations infuse greater disclosure, clarity, and accuracy into their communications with stakeholders. For example, governance decisions to voluntarily share information related to the firm's ecological impact with environmental activists indicate disclosure; decisions to actively limit the use of technical terminology, fine print, or complicated mathematical notations in the firm's correspondence with suppliers and customers indicate clarity; and decisions to not bias, embellish, or otherwise distort known facts in the firm's communications with investors indicate accuracy. The strategic management of transparency therefore involves intentional modifications in disclosure, clarity, and accuracy to accomplish the firm's objectives.

Hermalin and Weisbach (2007) explained that objective of many proposed corporate governance reforms is increased transparency. This goal has been relatively uncontroversial, as most observers believe increased transparency to be unambiguously good. They argue that, from a corporate governance perspective, there are likely to be both costs and benefits to increased transparency, leading to an optimum level beyond which increasing transparency lowers profits. The result holds even when there is no direct cost of increasing transparency and no issue of revealing information to regulators or product-market rivals. The result showed that reforms that seek to increase transparency can reduce firm profits, raise executive compensation, and inefficiently increase the rate of CEO turnover. They further consider the possibility that executives will take actions to distort information. They showed that executives could have incentives, due to career concerns, to increase transparency and that increases in penalties for distorting information can be profit reducing.

2. Responsibility

Corporate managers' responsibilities, of course, are not limited to producing truthful financial reporting, carrying out the core functions of conducting business and obeying the various applicable laws. Businesses also have to respond to the expectations of the democratic societies in which they operate – expectations that often are not written down as formal law. The term "corporate responsibility" refers to the actions taken by businesses in response to such expectations in order to enhance

the mutually dependent relationship between business and societies. Shareholders, in fact, expect their corporations to meet society's demands, consistent with maximizing the value of the firm. Indeed, experience has shown that companies that do so are generally.

3. Discipline

Corporate policies are only as effective as their implementation. A company's management can spend years developing a strategy to push into new markets, but if it can't mobilize its workforce to implement the strategy, the initiative will fail. Good corporate governance requires having the discipline and commitment to implement policies, resolutions and strategies.

Denis and Kruse (2000) examine the incidence of disciplinary events that reduce the control of current managers, and corporate restructuring among firms experiencing a large decline in operating performance during an active takeover period (1985–1988) and a less active period (1989–1992). They found a significant decline in the disciplinary events from the active to the less active period that is driven by a significant decline in disciplinary takeovers, those takeovers that result in a top executive change. Following the performance decline, however, there is a substantial amount of corporate restructuring, and a significant improvement in operating performance, during both the active and the less active takeover period. They concluded that, although some managerial disciplinary events are related to overall takeover activity, the decline in takeover activity does not result in fewer performance-enhancing restructurings following performance declines.

4. Fairness

Fairness means treating people with equality. It entails avoiding of bias towards one or more entities as compared to the other(s). Fairness is usually considered with various stakeholders of a company in mind. The choice as to what is fair and will most likely is made by taking into account the stakeholder's position on the power-interest matrix. Some of the stakeholders of a company include; shareholders (including institutional investors), suppliers (creditors), employees, customers and the community at large.

5. Accountability

In corporate governance, accountability is answerability, blameworthiness, liability, and the expectation of account-giving. As an aspect of governance, it has been central to discussions related to problems in the public sector, Nonprofit and private (corporate) and individual contexts. The separation of ownership from management can cause conflict if there is a breach of trust by managers either by intentional acts, omission of key facts from reports, neglect, or incompetence. One way in which this can be avoided is for entities (in their entirety) to act with transparency and be accountable to the shareholders and other stakeholders. Therefore apart from just being a component of corporate governance, there are many advantages of accountability.

Accountability is a very important pillar of corporate governance. Without it, the agency problem would be hard to defeat. With it, the confidence of stakeholders is increased. It is achieved through faithfulness in various aspects of corporate governance especially reporting. The strength and accuracy of the reporting is also strengthened by various standards and regulations.

CHAPTER III
METHODOLOGY

3.1 Research Design

This chapter is designed to explain the research methods used to meet the stated objectives of the study. This chapter hence provides information about research design, sources of data, questionnaire, data collection procedures, population and sampling, instrumentation, administration of instrument and data analysis plan. The primary objective of this chapter is to showcase the methods and procedure utilized to get the most accurate result following the set objective of the research topic. The design and methods have been applied according to the research type which is descriptive.

Descriptive research design was used for the purpose of this research. The findings of this research were based on the primary data. The data has been collected by formulating a set of questionnaire which was distributed to the respondents. The findings are completely based on the data and facts provided by the sampled respondents. The research studied Corporate Governance in commercial bank of the country so that the responses of employees can be quantified and measured easily.

The study is based on various statistical tests and analyses. For this purpose, Statistical Package for Social Science (SPSS) software and Microsoft Excel were used to analyze and interpret the quantitative data. This software is commonly used by researchers and easily available in business settings. Descriptive statistics was used for the calculation of mean and standard deviation based on the respondent profile. Correlation analysis, t- test, regression analysis and hypotheses testing were carried out in the process of this research. The findings, interpretation and analysis have been presented through different well as tables as and when necessary. The reliability of scales is analyzed by using Cronbach's alpha since Cronbach's alpha test is the best measure for multiple scale items which is also the most popular test for the inter-item consistency reliability.

The final step of the research design and plan is the result derived from the summarized data and finally conclusion and recommendation are presented for the further references.

3.2 Population and Sample

In order to the study is to examine corporate governance practices in Nepalese commercial bank, this study contains a sample of 5 commercial banks of Nepal and Also for the questionnaire purpose 40 employees are selected who work in each five commercial banks. This study obtained data from 200 employees from five Commercial Banks of Nepal working all over Kathmandu Valley.

There are 27 commercial banks in Nepal. The sample selected for this study include from the government banking sector and private banking sector, mainly those employees were taken as sample that had some knowledge regarding the subject matter. Due consideration was given to make sure that study includes employees from all level management. It includes BODs, CEO, Department Head, Branch manager, Officer, Senior and Junior Assistant and Supervisor.

Convenience sampling was used in this study to track the respondents for the study. With this sampling technique, subjects are selected because of their convenient accessibility and proximity to the researcher. Convenience sampling was appropriate for this research because of its advantages like fairness and the quickness with which data can be gathered.

List of sample banks selected for the study

i. Agricultural Development Bank Ltd.
ii. NIC Asia bank Ltd.
iii. Rastriya Banijya bank Ltd.
iv. Nepal Bank Ltd.
v. Siddhartha Bank Ltd.

3.3 Data collection instrument

At the initial phase, for the purpose of developing theoretical framework, the data collection procedure was primary as well as secondary. Basically, the secondary source of data was internet, books and journals and related articles. Similarly, in the later stage the primary source of data collection was used for the purpose of collecting data so as to analyze data for ascertaining the results. The primary source of data was structured questionnaires, which consisted of multiple choice questions and rating scales so as to meet the intended objective of the study.

This research utilizes the Dennis (1974) Communication Climate survey to measure employee perceptions on how organization communicates. The Communication Climate survey was designed to study the inner environment of an organization Hayase (2009). For the purpose of this study the instrument was used to measure employees' perception of the communication climate in the organization, as it relates to employee engagement. The survey identifies five factors namely: superior-subordinate communication, quality of information, superior openness/candor, opportunities for upward communication, and reliability of information (Dennis, 1974).

The key instrument used in the study is the structured questionnaire which was designed to meet the stated objectives of the research. To maximize content validity, a comprehensive literature review was done in order to grasp the knowledge of corporate governance. On the basis of the questionnaire, data were collected and were analyzed using the statistical program SPSS in an attempt to describe what has been observed regarding theoretical framework developed by referring the related literatures in this topic.

The data for research was collected with the help of a questionnaire based on a 5-likert point rating scale ranging from 1-strongly disagree to 5strongly agree. The rating scale ranges from 1 to 5 as follows:

1. Strongly disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

30 opinion statements were set to measure 6 different variables among which 5 are independent variables, 1 is dependent variable. 25 different opinion statements were used to describe independent variables namely "transparency", "responsibility", "fairness", "discipline" and "accountability". 5 different opinion statements described dependent variable which is "perceived performance".

In the following table, Researcher has dedicated a code for each element which has been asked in questionnaire. Regarding to literature review and questionnaire, five

independent variable of the research are: transparency (T), responsibility (R), discipline (D), fairness (F) and accountability (A). Also (PP) stands for perceived performance as dependent variable.

The first part of the questionnaire deals with demographic information of respondents which includes gender, age, income level, education and the bank the respondent associated with.

The second part deals with questionnaires concerning various determinants of corporate governance of commercial bank, as stated in the theoretical framework for the study. The different variables included independent variables such as transparency, responsibility, fairness, discipline and accountability and dependent variable organizational performance. Among the independent variables, Transparency, Fairness, consists of 6 questions, discipline and responsibility consists of 4questions and followed by 5 questions for Accountability. The dependent variable organizational performance consist total of 5 questions.

Completion of survey instruments provided data to measure various independent and dependent variables used in the research study.

3.4 Data Collection Procedures

Primary data were used for the study through the survey method. A structured questionnaire was prepared and distributed to the respondents electronically as well as through personal visit. The responses were then collected from the respondents, mostly through personal network. The data collected from the questionnaire were analyzed using mathematical tools and the result was presented in tables and charts for a clearer understanding. The conclusions were drawn on the basis of the findings from the analysis of research and appropriate recommendations were made accordingly.

3.4.1 Primary Data Collection

In this research, primary data collection method was used, where primary data refers to data that is first used to test the working hypothesis and then used as evidence to support a researcher's claim. Survey questionnaire method was used as it is best suited for descriptive study. Questionnaires were handed out through delivery and collection method. Delivery and collection of questionnaires allow researcher to

confirm that the questionnaires were filled up completely and reduce the occurrence of missing data. It facilitates the researcher to explain respondents about any queries they may have regarding the questionnaire. This, in turn, would increase the accuracy of the data being collected.

Questionnaires for this study were handed out to employees of service sector organizations. The data collection phase was estimated to be spanned over a total of 15 days. The respondents were asked to respond on the close-ended questionnaire based on the 5-variables. Responses on the questionnaire were received within a period of 15 days.

3.5 Data processing procedure

In order to understand whether the question in this questionnaire all reliably measure the variables under study a Cronbach's Alpha(α) was run on a sample of 200 items. Quality and consistency of survey was assessed with Cronbach's alpha

Table: 3.1:

Reliability test of dependent and independent variables

S.N.	Variables	Cronbach's alpha	No of item (N)
1	Transparency	0.966	6
2	Accountability	0.886	5
3	Fairness	0.972	6
4	Discipline	0.929	4
5	Responsibility	0.954	4
6	Perceived Performance	0.958	5

Table 3.1 shows the Cronbach's alpha coefficients of independent variables-Transparency, Responsibility, Discipline, Fairness and Accountability. It is typically associated with internal consistency with values ranging from 0 to 1. Cranach's Alpha coefficient less than 0.6 is considered as 'poor'; greater than 0.6 but less than 0.8 is considered 'acceptable' and greater than 0.8 is considered 'good' Sekaran(2000). Here, Cronbach's alpha of Transparency is considered as good, since it is greater than 0.8. And Accountability is considered as acceptable, since it is greater than 0.6. Other variable are greater than 0.8 so they are good. Therefore, the instruments used in this research are considered to be reliable.

3.6 Data analysis tools and techniques

This section reflects how analyses have been carried out in chapter four. It is necessary to follow certain steps and procedures in analyzing data in order to understand the results and generalize the findings. The analysis starts with the analysis of primary data through SPSS. The primary data is collected from service sector organizations through the preparation of questionnaire, for analyzing the relationship of internal communication climate with employee engagement. Total responses collected from the respondent were coded and tabulated into SPSS worksheet. Cranach's alpha coefficient was used for scaled items to test the reliability. MS-Excel is used for quantitative data entry and analyses. Simple descriptive statistics such as frequency count, percentage, mean and standard deviation, etc. were used particularly to analyze the corporate governance in Nepalese commercial banks.

3.6.1 Statistical analysis

Statistical analysis is important part of the study under which the data are presented and the analyzed in useful format. Data were processed and due consideration was taken that those data were accurate and consistent with the intent information obtained. To assess the situation of employees in Nepalese commercial banks and to analyze the factors affecting employee's perceived performance, various statistical tools are used. Statistical tools were used primarily for two purposes: to see the distribution and tendency of the data collected through questionnaire and to test the hypothesis set to achieve the objective of the study. To see the distribution and tendency of the data, several graphical tools like tables, charts and diagrams were used. Particularly, the descriptive study part used graphs, tables, pie charts, mean, standard deviation and percentage distribution for presentation and analysis. And, the hypothesis testing part included tables, mean, standard deviation, Pearson's correlations and linear regression.

3.6.1.1. Descriptive statistics

Descriptive statistics is the first step in our analysis. Under descriptive statistic mean and standard deviation are computed and analyzed.

Mean or Average

In other words, the quantities which are the representative of the huge mass of quantities are known as average. The most popular mean is arithmetic mean or

average, which is calculating the sum of all variables divided by the number of variables. The mean is the arithmetic average of a variable.

Standard Deviation

Standard deviation (S.D.) is the most popular and the most useful measure of dispersion. It indicates the ranges and size of deviance from the middle or mean. It measures the absolute dispersion. Higher the values of standard deviation higher the variability and vice versa. It is the positive square root of average sum of squares of deviations of observations from the arithmetic mean of the distribution.

Correlation analysis

Correlation is one of the most useful statistics. In other words, correlation is the statistical tool measures the degree of relationship of one variable with other variable. Two or more variables are said to be correlated if change in the one variable appears to be related or linked with the change in the other variables value. Correlation says just degree of relationship between two or more variables. It does not tell us anything about cause and effect relationship. Correlation may be positive or negative. Correlation lies between -1 & +1. When Pearson's correlation(r) is close to 1 then there is strong relationship between two variables. This means that change in one variable are strongly correlated with change in second variable. When correlation(r) is close to zero then there is weak relationship between two variables.

Regression analysis

A technique for determining the statistical relationship between two or more variables where a change in a dependent variable is associated with, and depends on, a change in one or more independent variables. Multiple regressions is a statistical tool used to derive the value of a criterion from several other independent, or predictor, variables. It is the simultaneous combination of multiple factors to assess how and to what extent they affect a certain outcome. It can be used to forecast effects or impacts of changes. The multiple linear regression analysis can be used to get point estimates.

3.6.1.2 Hypotheses

This research illustrates 5 dimensions which are gathered from a variety of researchers in terms of corporate governance they are the most significant ones. Although some terms have been repeated in most studies' others have different

definitions in different studies. Now we put corporate governance as the constant variable for our hypotheses and suppose 5 independent variables.

According to several previous researches, Transparency, Accountability, Discipline, Fairness and Responsibility are one of the most key determinants of corporate governance. Therefore the hypothesis to be tested in this research study would be:

1) **Alternative Hypothesis 1 (H_1)**

There is a significant relationship of transparency on perceived performance.

2) **Alterative Hypothesis 2 (H_2)**

There is significant relationship of accountability on perceived performance.

3) **Alternative Hypothesis 3 (H_3)**

There is significant relationship between fairness and perceived performance.

4) **Alternative Hypothesis 4 (H_4)**

There is significant relationship between discipline and perceived performance.

5) **Alternative Hypothesis 5 (H_5)**

There is significant relationship between responsibility and perceived performance.

CHAPTER IV
RESULTS

This chapter describes the analysis results generated from the process of data collection. It deals with the analysis and interpretation of the primary data collected through questionnaire from 200 respondents. Data were analyzed with reference to the objectives of this research as mentioned in the earlier chapter. The primary purpose of this chapter is to analyze and interpret the collected data and present the results of the questionnaire survey. The main objective of this research study is fulfilled with the outcomes derived from the analysis of the data.

4.1 Respondent Profile

The first part of the questionnaires was based on respondents profile to obtain information relating to age, income, education, and profession. The data is collected from Kathmandu valley on the personal visit and through a structured questionnaire and respondents are selected on the basis of random and convenient sampling method. With using frequency distribution table, demographic statistics and calculating descriptive numbers such as index of umbilical (mean, median and mode) and index of dispersion (variance and standard deviation) data analysis would be processed in this part.

Table 4.1

Distribution of Respondents Profile

Profile		Frequency	Percent
	Male	104	52
Gender	Female	96	48
	Total	200	100
Age	Below 20	3	1.5
	21-30	59	29.5
	31-40	104	52
	Above40	34	17
	Total	200	100
Marital Status	Single	91	45.5
	Married	109	54.5
	Total	200	100
Education Level	Higher Secondary	1	0.5
	Under Graduation	17	8.5
	Graduation	105	52.5
	Above graduation	77	38.5
	Total	200	100

Source: Field Survey, 2021

4.1.1 Gender of the Respondents

Table 4.1 shows that out of total respondents, 52%of the respondents are male and 48% are female. So, can conclude that most of the respondent in the study are male being 52%.

4.1.2 Age of Respondents

According to Table 4.1, 1.5% of the respondents are of the age group of below 20. Similarly, 29.5% of the respondents belong to age group of 21-30 fill up the questionnaire. Similarly, out of the total respondents, 52% belongs to age group 31-40 and 17% to the age over 40 respectively. Hence, it is quite obvious that the respondents under 31-40 age groups are the dominant user of the commercial banks services.

4.1.3 Marital Status of the Respondents

Above Table 4.1 shows that out of total respondents, 45.5% of the respondents are single and 54.5% are married. So, can conclude that most of the respondent in the study are married being 54.5%.

4.1.4 Educational Level of the Respondents

According to Table 4.1, 0.5% of the respondents are the higher secondary level. Similarly, 8.5% of the respondents belong to under graduation fill up the questionnaire. Similarly, out of the total respondents, 52.5% belongs to graduation and 38.5% to the above graduation respectively. Hence, it is quite obvious that the respondent’s graduation level is the dominant user of the commercial banks services.

4.2 Descriptive Statistics

Descriptive statistics is used to analyze the data collected from the respondents. In this part we present frequency distribution for each e-service dimensions which they create our dependent variables and show other information such as minimum, maximum, mean and standard deviation for each of them. In this part we present frequency distribution for each corporate governance dimensions which they create our dependent variables and show other information such as minimum, maximum, mean and standard deviation for each of them.

a. Transparency

Table 4.2

Descriptive Statistics of Transparency

Variable	N	Min.	Max.	Mean	Std. Deviation	Mean Difference	t-test p-value
Management has disclosed three or five year's performance.	200	1	5	3.76	.964	.755	.000
Public announcement of results have been no longer than two working days of board meeting	200	2	5	3.72	.888	.715	.000
The reports are clear and informative (Based on perception of analyst).	200	3	5	4.16	.619	1.155	.000
Analyst has good access to senior management	200	3	5	4.08	.704	1.080	.000
The bank has a website where results and announcements are updated promptly (no later than one business day).	200	3	5	4.12	.881	1.115	.000
The bank consistently discloses major and market sensitive information punctually	200	2	5	3.94	.939	.940	.000
N=200 Test value=3				Average Mean=3.96	Average S.D.=0.858		

Sources: Field Survey, 2021

In Table 4.2, which is related for the items of variable (T), the mean of each question are less than 5, in other words frequency of the answers: (strongly disagree), (disagree), (neutral) and (agree) are more. The highest value of mean is 4.12 with standard deviation of 0.881 for "The bank has a website where results and

announcements are updated promptly (no later than one business day)". Similarly, the lowest value of mean is 3.72 with standard deviation of for "Public announcement of results have been no longer than two working days of board meeting" which indicates most of the respondents neutral or agree in the statement. Similarly, the overall mean value for transparency is 3.96 with standard deviation of 0.868.This indicates that the information in the commercial bank is transparent.

While doing t-test, all the variables of transparency have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3.

b. Accountability

Table 4.3
Descriptive Statistics of Accountability

Variable	N	Min.	Max.	Mean	Std. Deviation	Mean difference	t-test p-value
The board members of executive or management committee should be substantially different (i.e. no more than half of one committee sits on the other).	200	2	5	3.66	.792	.660	.000
Fully board meetings are held at least once a quarter. (Here employees are accountable to the concerned officer).	200	2	5	3.69	.798	.690	.000
Audit committee nominates and conducts a proper review of the work done by external auditors.	200	2	5	3.95	.800	.950	.000
The audit committee supervises internal audit and accountability procedures	200	2	5	3.87	.779	.870	.000
There are any foreign nationals on the board.	200	1	3	2.00	.702	-1.000	.000
N=200 Test value=3	973	1	5	Average Mean =3.453	Average S.D.=1.065		

Sources: Field Survey, 2021

Here we have five different opinion statements were used to describe the Accountability of the service quality of commercial banks. The mean of each question

are greater than 2 (>2). The highest mean is 3.95 with the standard deviation of 0.800 for the statement “Audit committee nominates and conducts a proper review of the work done by external auditors.”. Similarly, the lowest mean of the variable is 2.00 with the standard deviation of 0.702 for the statement “There are any foreign nationals on the board” .The overall mean value for Accountability is 3.453with standard deviation of 1.065. This indicates that the employee feels that accountability in commercial bank is good as most of the respondent agree and strongly agree on this.

While doing t-test, all the variables of accountability have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3 besides one variable (there are any foreign nationals on the board).

c. Fairness

Table 4.4

Descriptive Statistics of Fairness

Variable	N	Min.	Max.	Mean	Std. Deviation	Mean difference	t-test p-value
All the employees have access to their appraisal record.	200	1	5	3.46	1.155	0.455	0.000
Criticism/suggestions are easily given to employees	200	1	5	3.63	0.876	0.630	0.000
All necessary information for appraisal criteria is made available prior to evaluation	200	1	5	3.61	0.867	0.610	0.000
There have been no questions or controversy over whatever bank has issued transparency report or not.	200	1	5	3.09	1.003	0.090	0.206
Is it true that over past five years the total director’s remuneration has not increased faster than employees?	200	1	5	3.21	1.373	0.210	0.032
The head of department report to either CEO or board member concerned to employees’ equality.	200	1	5	3.48	1.032	0.480	0.000
N =200 Test value =3				Average Mean =3.456	Average S.D = 1.054		

Sources: Field Survey, 2021

Six different opinion statements were used to describe the fairness of commercial banks. The mean of each question are more than 2 (>2), in other words frequency of the answer agree and strongly agree is more in this variable. The highest mean is 3.48 with standard deviation of 1.032 for the statement "The head of department report to either CEO or board member concerned to employees' equality". Similarly, the lowest mean 3.09 with standard deviation of 1.003. The overall mean value for Fairness is 3.456 with the standard deviation of 1.054, which means that employee agree that there is fairness in commercial bank.

While doing t-test, all the variables of fairness have p-value less than 0.05 besides one variable i.e. p-value= 0.206 (There have been no questions or controversy over whatever bank has issued transparency report or not), which shows that mean value of all these variables are significantly greater than 3 besides one variable.

d. Discipline

Table 4.4

Descriptive Statistics of Discipline

Variable	N	Min.	Max.	Mean	Std. Deviation	Mean difference	t-test p-value
The bank has issued a "mission statement" that clearly places a priority on good corporate governance.	200	2	5	3.87	0.746	0.870	0.000
Over the past five years, is it true that the bank has declared any warrants against indiscipline?	200	1	5	3.32	0.721	0.320	0.000
Over past five years, is it true that the bank has not built up disciplinary action report?	200	1	5	2.93	1.035	-0.070	0.340
The bank's Annual Report includes a section devoted to the bank's performance in implementing corporate governance principles.	200	1	5	3.42	0.810	0.420	0.000
N=200 Test value=3				Average Mean = 3.385	Average S.D = 0.900		

Sources: Field Survey, 2021

Four different opinion statements were used to describe the discipline of the corporate governance in commercial banks. The highest value of mean is 3.87 with standard deviation of 0.746 for “The bank has issued a “mission statement” that clearly places a priority on good corporate governance.” which indicates most of the respondents’ neutral, agree and strongly agree in the statement. Similarly, the lowest value of mean is 3.32 with standard deviation of 0.721 for “Over the past five years, is it true that the bank has declared any warrants against indiscipline”. Which indicates most of the respondents strongly agree, agree and neutral in the statement. The overall mean is 3.385 with the standard deviation of 0.900. So, the discipline in commercial bank is quite good.

While doing t-test, all the variables of fairness have p-value less than 0.05 besides one variable i.e. p-value =0.340(Over past five years, is it true that the bank has not built up disciplinary action report?),which shows that mean value of all these variables are significantly greater than 3 besides one variable.

e. Responsibility

Table 4.6
Descriptive Statistics of Responsibility

Variable	N	Min.	Max.	Mean	Std. Deviation	Mean difference	t-test p-value
There is any corrective action on the decision made by board on their favor at the expense of management.	200	1	5	3.27	1.045	0.270	0.000
There were any punishments given to the responsible person for misbehavior or business failures.	200	1	5	3.44	0.768	0.440	0.000
There were any questions over whether the board takes measures to safeguard the interest of all and not just one.	200	1	4	3.21	0.772	0.205	0.000
There are mechanisms to allow punishment of the management committee in the event of mismanagement.	200	2	5	3.47	0.814	0.465	0.000
N=200 Test value=3				Average Mean = 3.345	Average S.D = 0.863		

Sources: Field Survey, 2021

Table 4.6, which is related for the items of variable (R), the mean of each question are greater than 3 (>3), in other words frequency of the answers: (strongly agree) and (agree) are more. The highest value of mean is 3.47 with standard deviation of 0.863 for “There are mechanisms to allow punishment of the management committee in the event of mismanagement”. Similarly, the lowest value of mean is 3.21 with standard deviation 0.772 for the statement “There were any questions over whether the board takes measures to safeguard the interest of all and not just one”. The overall mean value for Responsibility is 3.345with standard deviation of 0.853. Here according to the result, the member in board of directors are not well qualified and experienced director as the Board of director and most of the respondent agree that board and the management have clearly defined roles and responsibilities.

While doing t-test, all the variables of responsibility have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3.

f. Perceived performance

Table 4.7

Descriptive Statistics of Perceived performance

Variable	N	Min.	Max.	Mean	Std. Deviation	Mean difference	t-test p-value
The productivity of the bank has increase.	200	1	5	4.09	0.855	1.085	0.000
The trusting relationship between bank and employee has increase.	200	1	5	4.09	0.952	1.090	0.000
The work responsibility has to increase knowledge and confidence in skills.	200	2	5	4.17	0.946	1.170	0.000
The recruitment of employee on the board and other level are fair.	200	3	5	4.04	0.739	1.035	0.000
The rate of employees’ turnover has decreased.	200	3	5	4.31	0.666	1.305	0.000
N=200 Test value= 3				Average Mean = 4.137	Average S.D = 0.843		

Sources: Field Survey, 2021

Table 4.7 reflects descriptive data for the perceived performance. Perceived Performance is a dependent variable used in this research. 5 different opinion statements were used to describe the Perceived Performance of commercial banks. The mean of each question are greater than 4 (>4), in other words frequency of the answers: (strongly agree) and (agree).

The highest value of mean is 4.31with standard deviation of 0.666 for the statement "The rate of employees' turnover has decreased", which indicates most of the respondents agree or strongly agree in the statement. Similarly, the lowest value of mean is 4.09with standard deviation of 0.855for the statement "The trusting relationship between bank and employee has increase." which indicates most of the respondents strongly agree or agree in the statement. The overall mean value for perceived performance is 4.137with standard deviation of 0.843. This indicates that the overall perceived performance in commercial banks is quite good in Nepal as most of the respondents agree or strongly agree on this variable.

While doing t-test, all the variables of perceived performance have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3.

4.3 Inferential Analysis

The purpose of this section is to present the method for analyzing the empirical results, test the hypothesis set, built in previous chapter. Inferential statistics are procedures used that allow researchers to infer or generalize observations made with samples to the larger population from which they were selected. It enables use of one or more samples of observations to infer values of a population. Inferential analysis test hypotheses to determine if observed differences between groups or variables are real or occur simply by chance. It produces new information by making predictions and generalizations based on samples. This section consists of two analysis tools which are:

4.3.1 Correlation Analysis

Pearson Correlation analysis is used to determine the relation between various independent and dependent variables associated with the research. It measures the linear correlation between any two variables. This analysis was carried out for variables having simple multi option answers. Correlation matrix was computed to

assess the extent or degree of relationship in between the research variables. A positive correlation reveals that the direction of the relationship is positive with one increasing in reaction to the other's increase. Meanwhile, a negative correlation reveals an inverse of the above; an increase in one when the other decreases. Correlation between Independent and Dependent variables is shown in Table 4.8:

Table 4.8

Correlations Analysis

		Transparency	**Accountability**	**Fairness**	**Discipline**	**Responsibility**	**Perceived performance**
Transparency	Pearson Correlation	1					
Accountability	Pearson Correlation	.328**	1				
Fairness	Pearson Correlation	.597**	.540**	1			
Discipline	Pearson Correlation	.623**	.350**	.491**	1		
Responsibility	Pearson Correlation	.772**	.440**	.629**	.728**	1	
Perceived performance	Pearson Correlation	.817**	.324**	.572**	.659**	.805**	1

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

4.3.1.1 Relationship between Transparency and Perceived Performance

The Pearson Correlation coefficient between the independent variable transparency and dependent variable perceived performance is 0.817, which implies that the two variables are positively correlated and there is correlation between transparency and perceived performance. The positive coefficient of correlation is 0.817 at 5% significant level.

4.3.1.2 Relationship between Accountability and Perceived Performance

The Pearson Correlation coefficient between the independent variable accountability and dependent variable perceived performance is 0.324 which implies that the two variables are not correlated and there is no correlation between accountability and perceived performance. The coefficient of correlation 0.324 at 5% significant level.

4.3.1.3 Relationship between Fairness and Perceived Performance

The Pearson Correlation coefficient between the independent variable fairness and dependent variable perceived performance is 0.572, which implies that the two variables are positively correlated and there remain strong correlation between them. The positive coefficient of correlation is 0.572 at 5% significant level.

4.3.1.4 Relationship between Discipline and Perceived Performance

The Pearson Correlation coefficient between the independent variable discipline and dependent variable perceived performance is 0.659, which implies that the two variables are positively correlated. The positive coefficient of correlation is 0.659 at 5% significant level.

4.3.1.5 Relationship between Responsibility and Perceived Performance

The Pearson Correlation coefficient between the independent variable responsibility and dependent variable perceived performance is 0.805, which implies that the two variables are positively correlated. The positive coefficient of correlation is 0.805 at 5% level of significant.

4.3.2 Hypothesis Testing

a) Alternative Hypothesis 1 (H_1)

There is relation between transparency and Perceived Performance.

Results presented in Table 4.8 shows that Pearson Correlation Coefficient between transparency and perceived performance is $r = 0.817$. This shows that strongly correlation exists between transparency and perceived performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e. $0.001 < 0.05$. Hence, H_1 is accepted.

b) Alternative Hypothesis 2 (H_2)

There is relation between Accountability and Perceived Performance.

The result shows that Pearson Correlation Coefficient between Accountability and Perceived Performance is r = 0.324. This shows that a positive and moderate-to-high correlation exists between Accountability and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e. $0.001 < 0.05$. Hence, H_2 is accepted.

c) Alternative Hypothesis 3(H_3)

There is relation between Fairness and Perceived Performance.

The result shows that Pearson Correlation Coefficient between Fairness and Perceived Performance is r = 0.572. This shows that a positive correlation exists between Fairness and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e. $0.001 < 0.05$. Hence, H_3 is accepted.

d) Alternative Hypothesis 4(H_4)

There is relation between Discipline and Perceived Performance.

The result shows that Pearson Correlation Coefficient between Discipline and Perceived Performance is r = 0.659. This shows that a correlation exists between Discipline and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e. $0.001 < 0.05$. Hence, H_4 is accepted.

e) Alternative Hypothesis 5(H_5)

There is relation between Responsibility and Perceived Performance.

The result shows that Pearson Correlation Coefficient between Responsibility and Perceived Performance is r = 0.805. This shows that a strongly correlation exists between Responsibility and Perceived Performance. This correlation is significant at 5% significant level, as p-value is less than alpha i.e. $0.001 < 0.05$. Hence, H_5 is accepted.

4.3.3 Regression Analysis

The general purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. In statistical modeling, regression analysis is a statistical process for estimating the relationships among variables. It includes many techniques for

modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. A correlation analysis can only tell whether or not a strong relationship exists between two variables. But even if a correlation coefficient indicates that a strong relationship exists between two variables, the exact shape of the relationship between the two variables cannot be determined. In this case, regression analysis provides more information about the slope of the relationship. It is used to describe the nature of a relationship and to make predictions. So, for deeper understanding of the impact of internal communication climate on employee engagement, the regression analysis is conducted. This section determines which independent variable explains variability in the outcome, how much variability in dependent variable is explained by independent variables and dependent variable, and which variables are significant (over other variables) in explaining the variability of the dependent variable. Multiple regressions were used to explore the impact of independent variables (transparency, Responsibility, Discipline, Fairness, Accountability) on dependent variable Perceived Performance. Multiple linear regression analysis is used to predict the impact of independent variables perceived performance. The equation for Impact of independent variables of perceived performance is expressed in the following equation:

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

Where,

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

X_1= Transparency

X_2= Responsibility

X_3= Discipline

X_4= Fairness

X_5= Accountability

α= Constant

$\beta_1, \beta_2 \ldots \beta_5$= Regression coefficients of Factor 1 to Factor 5 respectively

e_i= Error term

The results of model summary, analysis of variance (ANOVA) and beta coefficients of impact of independent variables of corporate governance on perceived performance are presented in the following tables respectively:

Model summary of impact of independent variables of Corporate Governance on Perceived Performance

Table 4.9

Model Summary

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

a. Predictors: (Constant), Total responsibility, Total Accountability, Total Discipline, Total Transparency, Total Fairness:

Sources: Field Survey, 2018

Model summary indicates the R- square also known as coefficient of determination which can help in explaining variance. The value of R-square value as evident from Table 4.9 is 0.751 which means 75 % variation in Perceived Performance is explained by the independent variables. However, the remaining 25 % (100% - 75%) is still unexplained in this research In other words, there are other additional variables of corporate governance of Nepalese commercial banks that are important in explaining Corporate Governances that have not been considered in this research.

Similarly, adjusted R-square is 0.749 which means 74.9% variation in Perceived Performance is explained by the independents variables after adjusting degree of freedom (df). This shows positive relationship between all variables of corporate governance and Perceived Performance. Model summary also indicates the standard error of the estimate of 0.439 which shows the variability of the observed value of Perceived Performance from regression line is 0.439 units.

ANOVA of impact of independent variables of Corporate Governance on Perceived Performance

Table 4.

10ANOVA[a]

Model		Sum of 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: Total perceived performance

b. Predictors: (Constant), Total responsibility, Total Accountability, Total Discipline, Total Transparency, Total Fairness

Sources: Field Survey, 2018

Based on ANOVA, the p-value is 0.001 which is lesser than alpha value 0.01. Therefore, the model is a good predictor of the relationship between the dependent and independent variables. As a result, the independent variables (transparency, Responsibility, Discipline, fairness, Accountability) are significant in explaining the variance in Perceived Performance. In other words, at least one of the 5 independent variables has important contribution to Perceived Performance.

Beta coefficients of impact of independent variables on Perceived Performance

Table 4.11

Coefficients[a]

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

a. Dependent Variable: Perceived Performance

The results presented in Table 4.11 also summarizes the values of unstandardized beta coefficients (β_1, β_2… β_5) and the constant α with which the estimated equation for Impact of independent variables on Perceived Performance can be written. Using the values of unstandardized beta coefficients and constant, we can write the estimated equation as follows:

$$\hat{Y} = 0 .638 + 0. 486X_1 -0.079X_2 + 0.125X_3 + 0.0884X_4 +0.334X + e_i.$$

Table 4.11 shows that responsibility, fairness, discipline and accountability are the significant independent variables while the independent variable accountability has no significant results since respective p-value is less than 0.05. ($p> 0.05$)

In the regression analysis, the beta coefficients are used to explain the relative importance of the independent variables in contribution to the variance in dependent variable. The results presented in Table 4.11, shows that transparency(β_1=0.486, p=0.000)carries the heaviest weight for Perceived Performance, followed by accountability β_2=-0.079, p=0.007 fairness (β_3=0.125, p=0.000), discipline (β_4=0.088, p=.001 responsibility (β_5=0.334, p=0.000). The results showed that a one-unit increase in fairness would lead to a 0.125 unit increase in Perceived Performance keeping other variables constant. Similarly one unit increase in Transparency factor would lead to a 0.486 unit increase in Perceived Performance, one unit increase in accountability factor lead to a 0.079 unit decrease in Perceived Performance and so on. In conclusion, transparency, responsibility, discipline and fairness dimensions are significant. Where, the factor accountability has no significant impact on perceived performance. Thus, the result of multiple regression analysis accepts alternative hypotheses that there is relationship between independent variables of Corporate Governance and Perceived Performance except for the variable accountability.

4.4 Major Findings

The findings from this research document the relationship corporate governance and its variable, as documented in the literature. The descriptive statistics study and the hypothesis test were conducted and the final result was presented. The results obtained from descriptive statistics for the dependent variables and independent variables are summarized as follows.

i. The overall average mean value of Transparency is 3.96, which shows that respondents agree that transparency is an important factor for perceived performance. While doing t-test, all the variables of transparency have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3.
ii. The overall mean of Accountability is 3.453 which show that respondents agree that accountability is an important factor of corporate governance that affects perceived performance. While doing t-test, all the variables of accountability have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3 besides one variable (there are any foreign nationals on the board).
iii. The overall mean of Fairness is 3.4567 which show that the employee of banking sector organizations give importance to fairness as the important factor and it influences the perceived performance. While doing t-test, all the variables of fairness have p-value less than 0.05 besides one variable i.e. p-value= 0.206 (There have been no questions or controversy over whatever bank has issued transparency report or not), which shows that mean value of all these variables are significantly greater than 3 besides one variable.
iv. The overall mean of Discipline is 3.385 which show that the employee of banking sector give importance to discipline and it influences the perceived performance of Nepalese commercial banks. While doing t-test, all the variables of fairness have p-value less than 0.05 besides one variable i.e. p-value =0.340, which shows that mean value of all these variables are significantly greater than 3 besides one variable.
v. The aggregate mean of Responsibility is 3.345 which show that the employee of banking sector organizations feels that responsibility is very important in commercial bank and it influence the perceived performance. While doing t-test, all the variables of responsibility have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3.

vi. The aggregate mean of Perceived Performance is 4.137 which show that the levels of perceived performance in Nepalese commercial banking sector are good. While doing t-test, all the variables of perceived performance have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3.
vii. The descriptive findings suggest that among various independent variables, the overall mean of fairness is 3.385 with the standard deviation of 0.900 which means there is less importance given to the fairness in the commercial as mentioned by the employees of the bank.
viii. Similarly, the highest mean is 3.96 of transparency with standard deviation of 0.858. While doing t-test, all the variables of transparency have p-value less than 0.05, which shows that mean value of all these variables are significantly greater than 3. We can see that employee feel the commercial banks are giving high importance towards the transparency and the bank's Annual Report includes a section devoted to the bank's performance in implementing corporate governance principles also. Hence, the overall discipline of the bank is satisfactory.
ix. The significance of the hypothesis between the variable are also analyzed from the significant value drawn from the sample. Alternative hypotheses transparency, accountability, fairness, discipline and responsibility are accepted.
x. The correlation results were used to answer the five research hypotheses. The Pearson Correlation coefficient between all five independent variables and dependent variable perceived performance was done, which implies that all the variables are positively correlated at 5% significant level.
xi. The result here shows that there is no significant relation between accountability and perceived performance which means that accountability in commercial banks does not impact for the perceived performance.

1.5 Discussion

This section discusses the analysis of Corporate Governance and the interrelationships of each factor derived from these larger constructs.

The analysis of descriptive findings showed that among various independent variables, transparency had the highest mean 3.96 with standard deviation of 0.858.

This shows that rather than other independent variables, discipline quality impacts much on Perceived Performance. Similarly, the dependent variable, Perceived Performance has a mean of 4.137 and standard deviation of 0.84. This shows that Perceived Performance in Nepalese commercial banks is good.

Through Pearson Correlation, service quality (transparency, responsibility, discipline, fairness and accountability) was found to positively correlate with Perceived Performance of commercial bank. It shows that all the independent variables have a significant positive relationship with Perceived Performance. However among all the independent variables, the independent variables 'Discipline and Responsibility' have the highest correlation of 0.817 and 0.805 respectively than remaining variables. So, it can be concluded that this dimensions has a greater impact on Perceived Performance. The correlation shows that there is significant correlation between all five independent variable and perceived performance.

However, from the multiple regression analysis, Transparency, Responsibility, Discipline and fairness are the significant independent variables while the other independent variable i.e., Accountability have non-significant results since p-value are less than 0.05.

The result here shows that there is no significant relation between accountability and perceived performance which means that accountability in commercial banks does not impact for the perceived performance. The bank should also focus on improving other major factor of corporate governance.
The main goal in the current study was to examine corporate governance of commercial bank of Nepal. This study found that positive relationships exist between Perceived Performance and other variables.

Some previous studies show the significance of study according to Miles (2010) which indicates that independence of director has effect on organizational success but our study proposes that independence has insignificance effect on organizational success in our environment when collective to other variable it has significance.

The study by Ilyas and Rafiq (2012) the role of corporate governance in organizational success is vital and integral to ensure the accomplishment. Analysis of present study tells that the corporate governance has different impact on

organizational success. Discipline and responsibility plays a stronger role in making organizations successful in commercial banks operating. Similar indications can be found in support that discipline is one of major contributor in organizational success. Empirical findings of this study in concert with direction of SEC manual corporate governance which force the importance of accounting standards being part of discipline in organizations, this study has also proven that discipline is most important and viable variable for banking sectors organizations to be succeeded.

Better corporate governance is supposed to lead to better corporate performance by preventing the expropriation of controlling shareholders and ensuring better decision-making. In expectation of such an improvement, the firm's value may respond instantaneously to news indicating better corporate governance. However, quantitative evidence supporting the existence of a link between the quality of corporate governance and firm performance is relatively Niruala (2015).

The relationship between Corporate Governance and other variable positive or negative is not the key **f**actor rather it's the assurance and reliability between them that makes their work more meaningful. These results provide some insight into the importance of corporate governance in commercial banks to sum up the results, it can be concluded that variable of corporate governance can have significant effects on Perceived Performance of the commercial bank.

CHAPTER V
CONCLUSIONS

This chapter consists of three sections first section provides the summary, the second draws the conclusion of the study and the final section proposes Implications to deal with the problem observed on the basis of findings.

5.1 Summary

The main purpose of the research study was to find out whether there exists any relationship between corporate governance and its other variable. To answer this question, several literatures with the subject of corporate governance, which are the main variable that effect the corporate governance, which drivers would help to achieve it and finally how we measure corporate governance have been discussed. On the other hand, concept and studies about corporate governance, its dimensions and the relation between other variable have been studied.

This research has taken as samples of five commercial banks to study the relationship between the corporate governance and financial performance. It specific objectives are: i) to assess the status of corporate governance practices in selected Commercial banks of Nepal, ii) to examine the perceived performance, iii) to analyze the impact of corporate governance on perceived performance. Among these 27commercial banks, it has taken Agricultural Development Bank Ltd., NIC Asia Bank Ltd., Rastriya Banijya Bank Ltd., Nepal Bank Ltd. & Siddhartha Bank using convenience sample method.

This study is based on primary data. The primary data is collected through the administration of questionnaires to the staff in related banks. It deals with the analysis and interpretation of the primary data collected through 200 valid questionnaires were selected and data analysis was applied to them. The responses were collected and the data was arranged and analyzed using Microsoft Excel and SPSS software packages. Finally, the researcher came to know that all the tested variables have impact on perceived performance. Finally, the researcher came to know that all the tested variables have impact on perceived performance. The responses were collected and the data was arranged and analyzed using Microsoft Excel and SPSS software packages.

5.2 Conclusions

The larger purpose of this study was to determine the corporate governance of the commercial bank of Nepal and the relationship of perceived performance with the other variable which are transparency, accountability, discipline, fairness and responsibility. Upon examining the perceived performance and factors of corporate governance it has been found that a relationship between the two does exist. The results indicated that commercial bank should give importance to the corporate governance to improve to overall performance of the bank.

To its advocate, the role of corporate governance in organizational success is vital to ensure the accomplishment. Analysis of study tells that the corporate governance has different impact on organizational success. Transparency, accountability, discipline, fairness and responsibility play a stronger role in making organizations successful in commercial banks operating in Nepal. According to this study these five variables significantly contribute in creating good corporate governance in the commercial bank. Thus, the result of multiple regression analysis accepts alternative hypotheses that there is relationship between independent variables of Corporate Governance and Perceived Performance except for the variable accountability. It was found that accountability doesn’t have much more impact on the perceived performance.

The most general corporate governance problem in organizations is basically a failure to have board of director and the member of the management are not different and also the employee are also not satisfied with the performance of audit committee. Employee also feels that boards meeting of the bank are also not held as per the requirement. Although the bank have written code of conduct but they are not performing up to the mark.

Presented research demonstrates that the governance is a very important organ of a corporation, which is more essentially required in the banking sector in order to have an influential power on information disclosure.

By this survey, it has shown that corporate governance in the Nepalese commercial banks can sustain their advantage through the maintained of corporate governance in the commercial bank of Nepal. It can be concluded that variable of corporate governance can have significant effects on banks along with its dimensions. The

corporate governance of the bank also has the significant impact when the dimension of the corporate governance is also evaluated like responsibility, discipline, fairness and accountability. The shocking result shows that accountability does not have much impact in the corporate governance. In view of the above analysis, Corporate Governance is necessary to the proper functioning of banks and their variables have also important role in the management of the corporate governance. Generally top management should take attention toward corporate governance in return to gain customers delighters which insure the overall organizational success.

5.3 Implications

Based on the research findings of this study, the following recommendations are prescribed to serve as a guideline for future research work of similar nature, apart from improving on the aspect of corporate governance in the Nepalese banking sector.

i. This research only focused on the five factors/groups of corporate governance However, future research regarding the relationship may provide insight about other variables that may have an effect on corporate governance and perceived performance, apart from the variables mentioned in this study.

ii. This study was conducted using a sample from commercial bank which cannot be generalized across other development bank, manufacturing company and finance company.

iii. This study is purely an academic research, so sample size is small. For the professional research purpose, in order to reduce the error and to make the result more pervasive sample size should be increased.

iv. This research was confined within Kathmandu valley. Research can be conducted in overall country to make the research more effective and genuine. A recommendation for future researcher is to use a larger sample of participants comprised of the entire banking sector as a whole so that the result of banking sector in Nepal can be identified.

v. The data were collected only through questionnaire, survey form and feedback. Future researcher can collect the response through conducting detailed interview techniques to understand the corporate governance and perceived performance.

vi. Correlation and multiple regression of accountability and perceived performance are not significant so further research can to create the significant relationship they have to be careful at the time of investment and well manage of the assets.

vii. In this research researcher used only 200 sample size, which is very less than population so it is less generalized. Further researcher should increase the no. of sample size.

viii. This study was conducted using a sample from only five banks located in Kathmandu valley which cannot be generalized for commercial banks all over the Nepal. A recommendation for future research is to use a sample comprised of other commercial banks around Nepal, or cover larger area and sample of participants from Kathmandu alley.

ix. This study primarily touched upon five aspects of corporate governance which influences the perceived performance of commercial banks. However, it would be more interesting to see further research, not only in Kathmandu valley but also other major commercial banks with other aspects of corporate governance.

x. The result is basically from commercial banks. Thus, the future study may be incorporated developments banks and other financial institutions

xi. Finally, future researcher can be used manufacturing sectors for conduct a research in place of commercial banks.

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APPENDICES

Questionnaire on Corporate Governance Practices in Nepalese Commercial Banks

Dear Participants,

First of all, I would like to thank you for taking out your valuable time from your busy schedule to fill this survey form. I am conducting this survey as a part of my Master's Degree (MBS) from Central Department of Management, Tribhuvan University. I would assure you that the information provided will be kept highly confidential and will be strictly used for research purpose only.

Sincerely Yours

Section 1: Participant Information (Please tick an appropriate option)

Gender	☐ Male		☐ Female	
Age	☐ Below 20	☐ 21-30	☐ 31 to 40	☐ Above 40
Marital Status	☐ Single	☐ Married	☐ Others	
Educational Level	☐ Higher Secondary	☐ Under Graduation	☐ Graduation	☐ Above Graduation

Screening Question: Please tick mark on your best suited option.

1. Name of the Banking Organization you work for

Agricultural Development Bank Ltd. ☐ NIC Asia Bank Ltd. ☐

Rastriya Banijya Bank Ltd. ☐ Nepal Bank Ltd. ☐

Siddhartha Bank Ltd. ☐

2. For how long have you been working this particular bank (chosen bank)?

Less than 3 years ☐ between 3- 6 years ☐

More than 6 years ☐

For Section:2 Please use the following rating scale and tick mark the best suited options.

1 = Strongly Disagree	2 = Disagree	3 = Neutral	4 = Agree	5 = Strongly Agree

Transparency

Code	Opinion Statement					
3	Management has disclosed three or five year's performance.					
4	Public announcement of results have been no longer than two working days of board meeting.					
5	The reports are clear and informative. (Based on perception of analyst).					
6	Analyst has good access to senior management.					
7	The bank has a website where results and announcements are updated promptly (no later than one business day).					
8	The bank consistently discloses major and market sensitive information punctually.					

Accountability

Code	Opinion Statement					
9	The board members of executive or management committee should be substantially different (i.e.no more than half of one committee sits on the other).					
10	Fully board meetings are held at least once a quarter. (Here employees are accountable to the concerned officer)					
11	Audit committee nominates and conducts a proper review of the work done by external auditors.					
12	The audit committee supervises internal audit and accountability procedures.					
13	There are any foreign nationals on the board.					

Fairness

Code	Opinion Statement					
14	All the employees have access to their appraisal record.					
15	Criticism/suggestions are easily given to employees.					
16	All necessary information for appraisal criteria is made available prior to evaluation.					
17	There have been no questions or controversy over whether bank has issued transparency report or not.					
18	Is it true that over past five years the total director's remuneration has not increased faster than employees?					
19	The head of department report to either CEO or board member concerned to employee's equality.					

Discipline

Code	Opinion Statement					
20	The bank has issued a mission statement that clearly places a priority on good corporate governance.					
21	Over the past 5 years, is it true that the bank has declared any warrants against indiscipline's?					
22	Over past 5 years, is it true that the bank has not built up disciplinary action report?					
23	The bank's Annual Report includes a section devoted to the bank's performance in implementing corporate governance principles.					

Responsibility

Code	Opinion Statement					
24	There is any corrective action on the decision made by board on their favor at the expense of management.					
25	There were any punishments given to the responsible person for misbehavior or business failures.					
26	There were any questions over whether the board takes measures to safeguard the interest of all and not just one.					
27	There is mechanism to allow punishment of the management committee in the event of mismanagement.					

Perceived performance

Code	Opinion Statement					
28	The productivity of the bank has increase.					
29	The trusting relationship between bank and employee has increase.					
30	The work responsibility has to increase knowledge and confidence in skills.					
31	The recruitment of employee on the board and other level are fair					
32	The rate of employees' turnover has decreased.					

Thanks for your time and consideration.

CORPORATE GOVERNANCE PRACTICES IN COMMERCIAL BANK OF NEPAL

A Proposal

Submitted By

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Table of Content

Chapters	Pages
1. Background of the Study	1
2. Statement of the Problem	3
3. Objective of the Study	3
4. Significant Of the study	4
5. Limitations of the Study	4
6. Literature Review	5
7. Conceptual Framework	7
8. Methodology	9
8.1 Research Design	8
8.2 Population and Sample	7
8.3 Nature and Sources of data	7
8.4 Data Collection &Processing Procedure	8
8.5 Data Analysis Tools and Techniques	8
8.6 Method of Analysis	9
9. Organization of the study	11
References	

1. Background of the Study

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate Governance refers to the way in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes decisions. Corporate governance is the key foundation for firms to be more productive and have a long existing product life cycle. The social and economic lives are developed and governed by the specific institutions of governance. Corporate governance is regarded as the key foundation of Organizations to be more productive, governed and controlled. Corporate governance is the System by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. Corporate governance in financial system aims at promoting healthy market practice and reducing financial anomalies resulting from agency problem. Among various other functions, banking system fundamentally performs an intermediary role in capital formation accepting deposits from customers, raise capital from investors or lenders (supply-side of credit) and then use lend this money to the business ventures and other economic activities (demand side of , buy securities and provide other financial services to customers. Financial system is therefore, believed to financial market that accelerates the performance of engine of growth of an economy. Good corporate governance is a need in financial system in that it controls market distortion from the various stakeholders in the system. The implication of financial sector governance in developing economies is even far-reaching for following stylized facts. First, banks have an overwhelmingly dominant position in developing economy financial systems, and are dominant engines of economic growth Levine (2004). Second, as financial markets are usually under developed, they are typically the most important source of finance for a majority of firms. Third, they are usually the main depository for the economy’s savings. Fourth, many developing economies have recently liberalized their banking systems reducing the role of economic regulation. Consequently, managers of financial institutions have obtained a greater degree of freedom in running their organization. Commercial bank occupies quite an important place in the framework of every economy. It provides capital for

the development of industry, trade & business investing the saving collected as deposit. All the economic activities of every country are greatly influenced by the commercial banking business of that country. Commercial banks, by playing active roles, have changed the economic structure of the world. Integrated & speedy development of the country is possible only when competitive banking services reach nooks & corners of the country Olokoyo (2011).

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the directors include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board's actions are subject to laws, regulations and the shareholders in general meeting Cadbury commission (1992). In his most comprehensive sense, corporate governance comprises all the forces that effect on firm’s decision making process. It would protect not only the stockholder’s rights, but also the bounding agreement and collapsing power of debtors. Corporate governance also gains the commitment of the employees, customers and suppliers. In adding together it is the Power to diffuse the risks by combining all the forces. In recent years, banking sector of Nepal has been transformed from a sluggish and government-dominated sector to a much more fragile, competitive and profitable industry. Different foreign banks have emerged recently which have increased the competition among commercial banks. In order to get competitive edge and to attract more and more customers, banks are focusing on providing better services to the customers Boot and Thakor (2009

Nepal, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence, and can discourage outside investment.

This study identifies different factors significant to corporate governance in Commercial banks in Nepal to enable the banks to develop strategies to improve the corporate governance in the bank. This will enhance the Bank's competitive position in the banking industry and ensure survival of the bank, especially in this era of keen competition.

2. Problem statement and research question

Good corporate governance reduces emerging market vulnerability to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, on the other hand, reduce investor confidence, and can discourage outside investment. In addition to this, the research has tried to find the answers to the following questions.

i. What is the status of Corporate Governance practice in selected Commercial Banks of Nepal?
ii. What is the level of perceived performance?
iii. What is the impact of corporate governance on perceived performance?

3. Objectives of the study

The major objective of the study is to examine corporate governance practices in Nepalese commercial bank. The specific objectives of this study are as follows.

i. To assess the status of corporate governance practices in selected Commercial banks of Nepal
ii. To examine the perceived performance.
iii. To analyze the impact of corporate governance on perceived performance.

4. Significance of the study

The researcher study is concerned with the corporate Governance of NIC Asia Bank Ltd and Nepal Bank Ltd. Corporate governance covers both the social and institutional aspects of a business. Simply put, it is the system by which organizations are directed and managed. Corporate governance influences how the objectives of a business are set and achieved, how risks are monitored and assessed, and how internal performance is optimized. This research has provided information relating to practice

of corporate governance used in commercial banks of Nepal. It has analyzed the actual practices implemented by the banks and its significance to them.

i. It explains the level of corporate governance practice in the Nepalese commercial bank.
ii. It enhances organization view on corporate governance.
iii. It provides literature to the researchers who want to commence further research in this field.

5. Limitation of the Study

Each and every research has some limitations. There for the following will be major limitation of the study.

i. The overall study is conducted with reference to few Nepalese commercial banks and may not represent the entire banking industry.
ii. Though the study collected opinions of employee without any bias, the study may not be representative enough because of the small sample.
iii. The analysis of this research is based on primary data, so any distortion of the reality from this study may be due to the business of the respondents.
iv. There are many components that are affecting the corporate governance but this study is considering only some limited components as independent variables.
v. This study has only focused on bankers views on perceived Performance but it does not consider the view of costumer.
vi. Only limited sample have been taken which may not be generalized to all sectors.

6. Literature Review

The academic literature on corporate governance examines the efficiency of alternative ownership structures and alternative structures for the board of directors. While there is mounting evidence of the failure of certain governance structures to motivate managers to increase firm's performance, the empirical evidence to date is mixed and gives little coherent evidence for the shape of an optimal governance structure.

According to Arun and Turner (2004), corporate governance of banks in developing economies is important for several reasons. First, banks have dominant position in developing-economy financial systems and are important engines of economic growth. Second, banks in developing economies are typically the most important source of finance for the majority of firms. Third, banks in developing countries are usually the main depository for the economy's savings. Fourth, many developing economies have recently liberalized their banking systems through privatization/disinvestments and reducing the role of economic regulation. Consequently, managers of banks in these economies have obtained greater freedom in how they run their banks.

According to Kocourek (2003), to counter the accounting, leadership, and governance scandals, organizations are rushing to institutionalize corporate governance, which may be even be counterproductive. The drive to more tightly regulate the membership and functions of corporate boards is already encouraging companies to view governance as a legal challenge rather than a way to improve performance. There is no universally accepted code that ensures good corporate governance. But there are some variables on which the corporate governance framework established. Those are Responsibility, Accountability, Fairness and Transparency.

Lusaka (2005) suggested that corporate governance is the system of accountability among shareholders, the boards of directors and the management of corporate entity. For achieving strategic corporate objective decision making process must be held accountable. Furthermore, he also encompassed the essentials of good corporate governance like; fairness, transparency, accountability and responsibility are least standards which can offer maximum protection from financial crisis and can intensify the access to capital. One more developing inspection reports that transparency, independence, accountability, discipline, fairness and social responsibility are major principles in good corporate governance.

Mwanakatwe (2005) also noted that corporate governance is more crucial in banking industry because of its role being the custodian of public funds due to high leverage of responsibility banks are more accountable. Furthermore he mentioned that banks are organism of financial Intermediaries and have a position of trust in economic system. Because of theses intensive obligations banks are very sensitive to ineffective

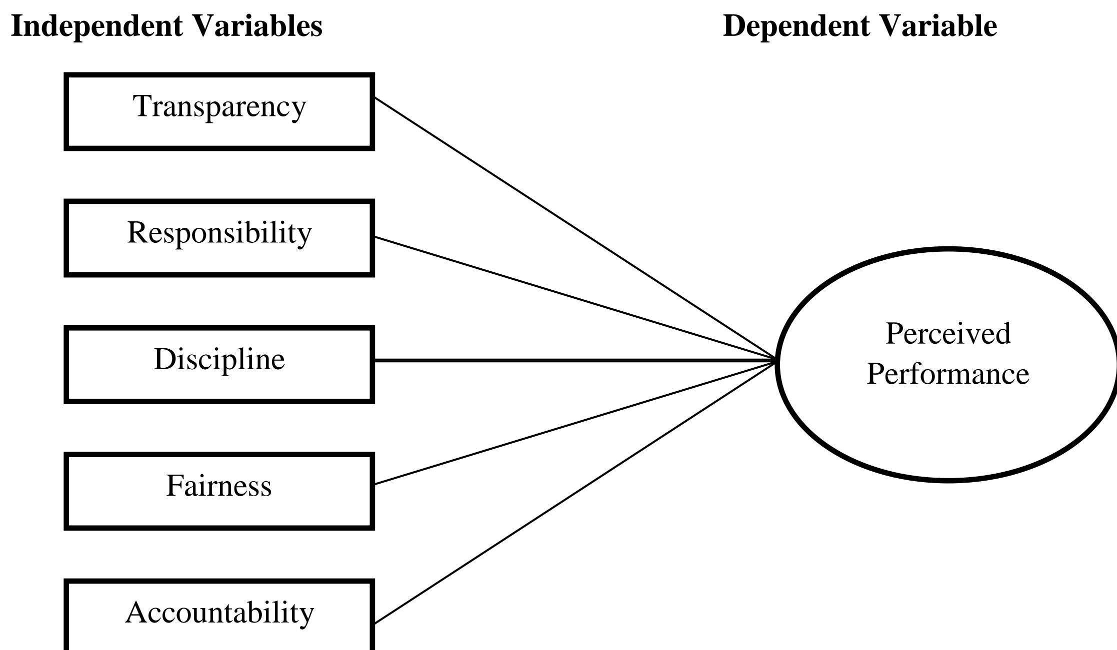
corporate governance. To support his arguments he presented a view that good corporate governance in banking sector can yield investor's confidence and can attract more investments. They are specially held accountable and responsible for company's tactical vision and share values for long term. By performing these key tasks at same time the management and board should be open and available to all the stakeholders on inquiry about the condition and performance of corporate. Furthermore they are also held accountable to disclose all the key decision criteria's whom decisions were made, addition to this the information regarding executive compensation, intentional planning, nomination and appointment of directors and succession of managers and financial controls. First report which was presented internationally mentions that by joining public accountability and control both will profound the company. It also suggests that economy of country mostly bases on strength and effectiveness of its companies. So, to make these corporate efficient major responsibilities lies to board how they discharge their responsibilities and determine their competitiveness position in the market. They must be independent to set the rules of companies but mean while they should exercise their freedom in context of accountability effectiveness.

Desoky and Mousa (2012) carried out the study on corporate governance practices: Transparency and disclosure evidence from the Egyptian exchange that focused on the impact of firm's transparency and disclosure as the main pillar of Corporate Governance. The main objective of this study was to evaluate the progress of a number of aspects of corporate governance practices by listed companies on the Egyptian exchange. To achieve the study's objectives, 12 factors were selected to be used in the evaluation of the progress of corporate governance. In addition to factors selected, a transparency and disclosure index of 65 items was used. This study employed statistical analysis to examine the relationship between firm characteristics from one side and transparency and disclosure from the other. The sample composed of 100 publicly traded companies and among these 100 companies there was one commercial bank, which was excluded from the sample because of different regulations imposed by the Central bank of Egypt. Similarly, to achieve the main objectives of the study, two indexes were developed. The first index "CG features Index" was developed to provide more description about progress of some aspects of CG practice by listed companies in the EGX. The second index "T & D Index" was developed to investigate the level of transparency and disclosure of financial and non-

financial information by listed companies in the EGX as main pillars of CG. The major findings of the multivariate analysis was that there is a significant positive association between the dependent variables from one side and four of the independent variables namely foreign firm, firm size, audit firm from the other. And findings of the multivariate analysis were consistent with those of the multivariate analysis especially for results related to the independent variable of foreign listing and firm size.

7. Conceptual Framework

The theoretical schema of this study depicting the different factors responsible for corporate governance. This framework indicates perceived performance as dependent variable and contributing factors - Transparency, Responsibility, Discipline, Fairness and Accountability are dimensions to measure the corporate governance a independent and construct variable. Below figure is the schematic representation of factors that guide our research question.



Source: Credit Lyonnais securities Asia (CLSA).

a. Transparency

Transparency is one of the important variables of this research. Transparency of a business firms has been a matter of primary concern for promoting corporate

governance. Regular disclosure of periodic financial performance report by management, prompt public announcement of pertinent information by the company's board, the clarity and completeness of publicly relayed information and easy access of senior management to analyst are the factors that promote transparency in the financing system.

b. Accountability

Accountability is a very important pillar of corporate governance. Without it, the agency problem would be hard to defect. With it, confidence of stakeholders is increased. It is achieved through faithfulness in various aspects of corporate governance especially reporting. The strength and accuracy of the reporting is also strengthened by various standards and regulations. Accountability refers to the answerability of the financial institution to their stakeholders. The primary attention of accountability in this study concern with the independence and segregation of board of directors and executive committee, commencement of regular and periodic board meetings, the impartial appointment of external auditors and objective and proper review of the work of external auditors.

c. Fairness

Fairness means treating people with equality. It entails avoiding of bias towards one or more entities as compared to the other. Fairness factors take into account the employee dimension of organization where employees consider their organization fair and equitable in work related issues.

d. Discipline

Discipline is defined as a force that prompts individuals and groups to observe rules, regulations, systems, processes and procedures which are considered to be necessary for the effective functioning of an organization.

e. Responsibility

Managers' responsibilities, of course, are not limited to producing truthful financial reporting, carrying out the core functions of conducting business and obeying the various applicable laws. Businesses also have to respond to the expectations of the democratic societies in which they operate –expectations that often are not written down as formal law. The term "corporate responsibility" refers to the actions taken by

businesses in response to such expectations in order to enhance the mutually dependent relationship between business and societies. Shareholders, in fact, expect their corporations to meet society's demands, consistent with maximizing the value of the firm. Indeed, experience has shown that companies that do so are generally the best performers in the long run.

8. Research Methodology

This chapter describes the methodology employed in this study. Research methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. In this study research methodology describe the methods and processes applied in the entire aspect of the study. This chapter describes research design, population, sampling procedure, sources of data and analysis of data.

8.1 Research Design

The study is based on descriptive research design. The descriptive research design is adopted for fact-finding and operation searching for adequate information and the fundamental issues associated with corporate governance practices in Nepalese commercial banks. More specifically, the study examines the areas of practicing corporate governance in Nepalese commercial banks as well as difficulties faced during the practices of corporate governance.

8.2 Population and Sample

Currently there are 27 commercial banks operating in Nepal. All the commercial banks in Nepal are considered as the total population (N), out of them, four commercial banks are taken as sample (n) for this research. The sample banks for the research are as follows.

i. Agricultural Development Bank Ltd.
ii. NIC Asia Bank Ltd.
iii. Nepal Bank Ltd.
iv. Rastriya Banijya Bank Ltd.
v. Siddhartha Bank Ltd.

8.3 Nature and Source of Data

The sample selection for the research is based on convenience sampling. Nine branches of each sampled bank are taken. The branches of each bank are taken from inside Kathmandu valley. This study was based on secondary data. In secondary sources, mainly annual reports published by NIC Bank Limited and Nepal Bank Limited were taken as main source of data. The necessary data were collected from published annual accounting and financial report of NIC Asia Bank, publication of NRB, publication of National Planning Commission, Bureau of Statistics and related publication, books, booklets, articles, magazines and official records of NIC Asia bank , previous dissertations, electronics media such as websites and published and unpublished document related to NIC Asia bank Ltd & Nepal Bank Ltd.

8.4 Data Collection Procedures

The primary information was obtained through informal discussion with the staff of the bank. Secondary data were collection from the annual published accounting and financial statement of NIC Asia Bank Limited & Nepal Bank Ltd. Similarly, other necessary data were collected from the Nepal Rastra Bank, National Planning commission & Central Bureau of Statistics and related Publications.

8.5 Methods of Analysis

Statistical tools are used to analyze the relationship between two or more variables and to find how these variables are related. In this study, following statistical tools are used.

i. Mean
ii. Standard Deviation
iii. t-test
iv. Coefficient of Variation
v. Correlation Analysis

9. Organization of the Study

The study has been organized into five chapters; the titles of each of these chapters are as follows.

First chapter contains the introductory part of the study. As already mentioned, this chapter describes the major issues to be invested along with the general background,

brief profiles of the sample bank, statement of problem, objectives, significance of the study, limitation of the study, limitation of the study and organization.

Second chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies in general.

Third chapter deals with methodology that includes research source and nature of data, data collection techniques, statistical tool used for the study.

Fourth chapter various data have been gathered from the published reports and documents. Data have been analyzed with the help of various analytical tools and techniques. It also includes major findings of the study.

Fifth chapter includes summary, conclusion and discussion of the study.

Bibliography and appendix have also been incorporated at the end of the study

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