CORPORATE GOVERNANCE AND PERFORMANCE OF NEPALESE COMMERCIAL BANKS

A THESIS

BY

Sudip Chand

Central Department of Management

Class Roll No.113

Roll. No: 1253/17

Registration No: 7-2-39-721-2012

Submitted in Partial Fulfillment of Requirement of Degree of

Masters of Business Studies (MBS Semester System)

In the

Faculty of Management

Tribhuvan University

Kathmandu, Nepal

November, 2020

CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis entitled prepared **"Corporate Governance and Performance of Nepalese Commercial Banks"** has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree as full acknowledged within the text.I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

....

Sudip Chand

Date:

RECOMMENDATION LETTER

I recommended that the dissertation prepared **"Corporate Governance and Performance of Nepalese Commercial Banks"** prepared by Sudip Chand has been completed under my supervision for partial fulfillment of the requirements for the degree of master of management. I hereby forward it for approval.

……………………………………….

Prof. Dr. Puspa Raj Sharma

Thesis supervisor

Central Department of Management

Tribhuvan University

Kirtipur,Kathmandu, Nepal

Date: ....

APPROVAL SHEET

We the undersigned, have examined the thesis entitled **"CORPORATE GOVERNANCE AND PERFORMANCE OF NEPALESE COMMERCIAL BANK"** prepared by Sudip Chand 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.

....
Prof. Dr. Puspa Raj Sharma
Thesis Supervisor

....
Lect. Nirajan Basnet
Internal Examiner

....
Asso. Prof. Dr. Binod Sah
External Examiner

....
Prof. Dr. Sanjay Kumar Shrestha
Chairperson, Research Committee
Central Department of Management, Tribhuvan University

....
Prof. Dr. Ramji Gautam
Head of Department
Central Department of Management, Tribhuvan University
Date:

ACKNOWLEGEMENTS

I would like to Tribhuvan University for providing opportunity to undergo the research and write thesis on my desired topic. It was an awesome feeling to write thesis and get knowledge through study of various researcher to thank them.

I would like to express my heartiest gratitude to people who helped one in fulfilling this thesis. My special thanks go to Professor Dr. Puspa Raj Sharma for this guidance with valuable comments and kind support to me all the way through this thesis. I would also like to express my gratitude to prof. Dr. Ramji Gautam (head of the department), research committee head Prof. Dr Sanjay Kumar Sherstha, Dean, Assistant Dean, Faculty of management for guidance during the time of study. Likewise, my thanks go to Lecturer Nirajan Basnet, Asso. Prof. Dr. Binod Sah and Sir Mukunda Rimal for this kind co-operation.

Finally, I would like to thank my friends who were there always to support me during my thesis. I would also like to thank the previous scholars as their researches were very valuable for making my thesis complete.

Sudip Chand

TABLE OF CONTNETS

CONTANTS **PAGE NO:**

Title page *i*

Certification of authorship *ii*

Recommemdation letter *iii*

Approval sheet *iv*

Acknowledgements *v*

Table of contents *vi-viii*

List of table and figures *ix*

Abbreviations *x*

Abstracts *xi*

CHAPTER: I INTRODUCTION **1-11**

1.1: Background of the study 1

1.2: Statement of problem & research question 6

1.3: Objectives of the study 8

1.4: Hypothesis 8

1.5: Rational of study 9

1.6: Limitation of the study 9

1.7: Chapter plan 10

CHAPTER: II REVIEW OF LITERATURE **12-28**

2.1 Introduction 12

2.2 Theoretical review 12

2.3 Empirical review 15

2.3.1 Review of journal articles 15

2.3.2 Review of previous theses 21

2.3.3 Review of research report or other related literature 22

2.3.4 Summary of articles and theses 26

2.4 Research gap 27

CHAPTER: III RESEARCH METHODOLOGY 29-35

3.1: Introduction 29

3.2: Research design 29

3.3 Population, sample and sampling design 29

3.4: Data collection procedure and instrument 30

3.5: Data processing procedure and data analysis method 30

3.6: Research framework and definition of variables 32

CHAPTER: IV RESULTS AND DISCUSSION 36-51

4.1: Results 36

4.1.1: Presentation of data 36

4.1.1.1: Descriptive statistics 36

4.1.1.2: Correlation analysis 37

4.1.1.3: Regression analysis 39

4.1.2: Major finding 43

4.2: Discussion 45

CHAPTER: V SUMMARY AND CONCLUSION 52-58

5.1: Summary 52

5.2: Conclusion 55

5.3: Implications 57

REFFERENCES **59-65**

APPENDICES **66-71**

LIST OF TABLES AND FIGURES

TITLE OF TABLE	PAGE NO:
Table: 1 Study on board member size and performance	16
Table: 2 Study on number of independent director and performance	17
Table: 3 Study on leverage and performance	18
Table: 4 Study on firm size and performance	19
Table: 5 Study on capital adequacy ratio and performance	20
Table: 6 Study on earnings per share and performance	20
Table: 7 Study on corporate governance and performance in nepal	27
Table: 3.3.1 Selection of commercial banks	30
Table 4.1.1.1 Descriptive statistics	36
Table 4.1.1.2: Pearson’s correlation matrix dependent and independent variables	37
Table 4.1.1.3.1 Regression analysis of return on equity and independent variable	40
Table 4.1.1.3.2 Results of multiple regression coefficients	41
Table 4.1.1.3.3 Regression result of net interest margin and independent variable	41
Table 4.1.1.3.4 Results of regression coefficient	42
Figure: 1 Conceptual framework in study	32

ABBREVIATIONS

BFI	Bank and Financial Institutions
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
DFID	Department for International Development
EPS	Earnings Per Share
FSAP	Financial Sector Assessment Program
IMF	International Monetary
NIM	Net Interest Margin
NFRS	Nepal Financial Reporting System
NRB	Nepal Rastra Bank
OECD	Organization for Economic Cooperation Development
ROE	Return on Equity
UNO	United Nation Organization

ABSTRACT

Corporate governance has become one of most talked about issues around the world to make financial and non-financial institution to become more accountable and transparent. Financial institutions have major role in country's economy. The central banks are responsible to make banking sector more reliable and governed. For survival of banks it's equally important to have good performance. So this study is mainly concerned to know the relationship between the corporate governance variables and performance variables. Board member size, number of independent variable, bank size, earning per share, capital adequacy ratio and leverage were taken as independent variables whereas return on equity and net interest margin were taken as dependent variables. The study was conducted among 11 commercial banks of Nepal. The data were collected from the annual reports of the banks. Correlation and regression analysis was used to determine the relationship and level of significance.

The result showed the relationship between board member size and return on equity was negative whereas relationship between number of independent directors and earnings per share were positive. The relationships with other variables were not significant.

The banks should minimize the numbers of directors in board and add the number of independent directors in banks for better performance. The central banks should focus on growth of banks and properly govern the activities of banks.

CHAPTER I

INTRODUCTION

1.1 Background of the study

Corporate Governance refers to the way companies are directed and managed. Without corporate governance, companies cannot be accountable to their different stakeholders. Various scholars define corporate governance as high lightening key element of corporate governance. Corporate governance can be regarded as a mechanism that is utilized to be able to direct and control firms and organizations (Amarneh, 2014).

Corporate governance can be defined as the relationship among shareholders, the board of directors and the top management in determining the direction and performance of the corporation (Wheelen & Hunger, 2006). It also includes the relationship among the stakeholders and the goals for which the corporation is governed. The principal stakeholders are the shareholders, management and the board of directors. Other stakeholders include employees, suppliers, customers, regulators, the environment and the community at large.

Governance may be said to be all about effectiveness, transparency, and accountability of the affairs of an institution by its management while protecting the interests of stakeholders. Modern corporate governance practices have evolved over time and different codes of the best practices on corporate governance have been developed by various organizations. OECD code of corporate governance and the Basel code of corporate governance principle are the guidelines formulated for good governance. These principles generally relate to the responsibilities of the board, directors, chairperson, CEOs, senior management, auditors, shareholders, and regulators. Accountability, internal control, related party transaction, conflict of interest, information disclosure have been extensively dealt with and targeted in the formulation of these governance principles (Cabraal, 2014).

Corporate governance is a combination of corporate policies and best practices adopted by the corporate bodies to achieve its objectives in relation to their stakeholders. It is also the field of economics, which studies the many issues arising

from the separation from ownership and control. The corporate governance structure specifies the distribution of the rights and responsibilities among different participants in the corporations, such as, the board managers, shareholders, and other stakeholders, and spells out the rules and procedures for the decision on corporate affairs (Pradhan &Adhikari, 2011).

Corporate governance, as a term, has come to imply good, in the non-moral as well as the moral sense. Its non-moral applications include efficient decision making, appropriate resource allocation, strategic planning, and so on (Monks &Minow, 2011). Nonetheless, in its moral sense, good corporate governance has come to be seen as promoting an ethical climate that is both morally appropriate in itself, and consequentially appropriate in that ethical behavior in business is reflected in desirable commercial outcomes (Francis, 2003). Thus, the links here are with due diligence, directors' duties, and the general tightening of corporate responsibility.

Corporate performance is an important concept that relates to the way and manner in which financial, material and human resources available to an organization are judiciously used to achieve the overall corporate objective of an organization. It keeps the organization in business and creates a greater prospect for future opportunities. The overall effect of good corporate governance should be the strengthening of investor's confidence in the economy of our country. Corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. It is therefore crucial that every service and industrial sector observe a strong corporate governance ethos.

Corporate governance is now identified and acknowledged as a powerful tool to generate trust and confidence in an institution. It is essentially important for banks because such institutions deal with funds raised from the public and failure to recover the investment can lead to bank failure along with affecting the national economy. Bernanke (2003) and Grossman (2005) present evidence that bank failures can have significant deleterious effects on future economic activity. The bank's failure lead to the lower-income, compensation growth, higher poverty rates, and lower employment. Good corporate governance is not end in itself. It is a means in support

of economic efficiency, sustainable growth, and financial stability. Good performance can be achieved with good governance.

Corporate governance is essential to all sectors of the economy, however crucial to the banking sector. According to Hambrick et al., (2008) not only do the constituents of the banking sector stand to gain or lose due to the quality and nature of corporate governance therein, but the entire national system can be propelled or stymied as well. Katrodia (2016) states that the health of the economy is closely related to the soundness of its banking sectors. The global financial crisis of 2008 was triggered by the collapse of large US banks. This, in turn, affected almost all sectors, including the income safety of pension holders. The failures of the financial system in the USA were due to poor governance and this lead to a major crisis in that period affecting the world economy. Mareinkowska (2017) stated that any global crisis is related to poor governance in financial institutions.

Corporate governance in the banking sector needs special attention using unique tools to monitor, supervise and evaluate the functioning of it. Bank for International Settlement states that effective corporate governance is essential to achieve and maintain public trust and confidence in the banking sector. Trust and confidence of the general public arethe most for deposit mobilization.

Corporate governance implementation in developing countries still seems a tough job to attain. There is a need for research on developing corporate governance policies, frameworks, and structures in developing countries. There has been less attention made on corporate governance in developing countries . They are involved in their internal own internal problems such as political instability, unemployment, poverty, civil war,etc (Mulili, 2011). Arun and Turner (2004) focused on the need for developing corporate governance in the banking sector in developing countries by pointing the following points :

i. Banks have an overwhelmingly dominant position in such an economy and considered as engines of economic growth.
ii. Banks are the most important source of finance for the majority of firms since financial markets are not developed properly.
iii. Banks are the main depository for economy saving.

iv. Bank managers obtain greater freedom in operating the banks from the government because of recent liberalization.

It's, therefore, more important to have proper supervision in the banking sector so that the crisis that happened in East Asia in 1997 and the USA in 2008 don't occur once again.

A lot of consideration has been given from previous years on corporate governance which has become a matter of interest across the world, especially during the last economic crisis and the financial devastation of many companies and banks. However, very little attention has been given on both corporate governance and performance of the banking sector globally (Maria, 2010). In the Nepalese context, one of the earlier studies revealed that the companies conducting AGM on time, financial statements submitted on time and "A" class auditor appointed in the firm have the rate of return and higher market price per share (Pradhan &Adhikari, 2011). With the increase in total assets, the rate of return and market price of share tends to increase.

For a developing country like Nepal, Corporate Governance reforms are more significant as it helps to attract more foreign direct investment and mobilizes greater savings through capital markets (Maskey, 2004). The Corporate Governance scenario gathered momentum only after 2002 when the central bank of Nepal, Nepal RastraBank (NRB) issued Corporate Governance directives. Till today, the regulatory requirements of Nepal Rastra Bank (NRB) solely act as the Corporate Governance benchmark. The Bank run of Nepal Bangladesh Bank (NB Bank) in November of 2006 and the ViborBikas Bank (VBB) crisis in 2011 (Sapkota, 2016), in which the Central Bank (NRB) had to rescue VBB, are the two remarkable banking crisis in Nepal. ViborBikas Bank's crisis can be compared to Lehman Brothers (Sapkota, 2016). Similarly, the bankruptcy of the Nepal Development Bank in 2009 was also one of the dark phases of the Nepalese banking sector (Sapkota, 2009). However, all three cases were linked to the failures in the implementation of Corporate Governance. In 2005 the central bank of Nepal, Nepal Rastra Bank issued directives to strengthen Corporate Governance, but it, however, reported several lapses in several banks. Hence, this research paper aims to find out the discrepancies and offer recommendations to it. The objectives of this research include: (1) To study the effect

of Corporate Governance factors (Board Size, Board Diligence, Board Independence, Ownership Structure and Internal Control) on the performance variables Efficiency, Return on Assets (ROA) and Return on Equity(ROE) of Nepalese Commercial Banks; (2) To study the effect of control factors (Bank Age and Bank Size) on the performance variables Efficiency, Return on Assets (ROA) and Returns on Equity (ROE) of Nepalese Commercial Banks.

In order for Nepal to accelerate economic development, the role of the banking sector is crucial. Nepal's banking sector has been passing through an uncomfortable phase forthe last few years. With the April 25, 2015 earthquake and the subsequent aftershocks, the banks were expecting huge withdrawal of cash, however, on the contrary, the bank deposits surged heavily upward. Due to this, there has been excess liquidity in banks, while demand for credit didn't rise at the same pace. The political instability and other business difficulties deterred investors from considering business expansion or new investment. There has also been an increase in nonperforming assets. And with the recent provision of Nepal Rastra Bank (NRB) requiring to increase the paid of capital, banks are forced to raise capital by issuing share or by the way merger. The merger is good but if it happens with the bad bank then the risk of failure may rise (Khatiwada, 2015). Therefore, improvement in corporate governance is required for Nepali banks to sustain in an unstable political environment and achieve performance to exist in a dynamic environment.

Corporate performance is an important concept that relates to the way and manner in which financial, material and human resources available to an organization are judiciously used to achieve the overall corporate objective of an organization. It keeps the organization in business and creates a greater prospect for future opportunities. The overall effect of good corporate governance should be the strengthening of investor's confidence in the economy of our country. Corporate governance is therefore about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. It is therefore crucial that the banking sector observe a strong corporate governance ethos.

1.2 Statement of problem & research questions

Banks and financial intermediaries are at the Centre after the financial crisis occurred in the USA, Brazil, and Thailand, etc. The deterioration of their asset portfolio, largely due to the distorted credit management was one of the structural sources of the crisis (Sanusi, 2010). This problem occurred because of poor governance to a large extent.

The corporate governance in developing countries has recently received a lot of attention in the literature: credit accrues to the growth prospects of these economies. In addition, noise trading, as opposed to fundamentals, has been documented to affect markets of these economies (Claessens & Yurtoglu, 2012). These markets are, in general, less efficient and therefore, demand corporate governance at a higher intensity.

The subject of corporate governance is of enormous importance. Even in the advanced market economies, there is a great deal of discussion on the effectiveness of governance mechanisms (Pradhan & Adhikari, 2011). This study is related to determining the relationship between corporate governance variables and bank performance variables. Here, board member size, number of independent directors, earnings per share, capital adequacy ratio, leverage, and bank size are considered as corporate governance variables and their relation to the return on equity and net interest margin are tested.

Good corporate governance is not only about its increasing importance to international investors but also its protection of domestic investors. Unlike international investors who have so phisticated instruments to diversify their overall portfolio risk, domestic investors are often captive to local markets and risk losing their life's savings when transparency is lacking and governance systems are defective. Jensen & Meckling (2003) acknowledged that the principal-agent theory which was also adopted in this study is generally considered as the starting point for any debate on the issue of corporate governance. A number of corporate governance mechanisms have been proposed to ameliorate the principal-agent problem between managers and their shareholders. These governance mechanisms as identified in agency theory include board size, board composition, CEO pay-performance sensitivity, director's ownership and shareholder right, etc. The agency theory

assumes that a smaller board is recommended to minimize the agency cost, by effective control over the management whereas larger boards might increase a large number of potential interactions and conflicts among the group members. Conversely, there is another school of thought in favor of larger board which believes that firms with larger board size have the ability to push the managers to track lower costs of debt because creditors view these firms as having more effective monitors of their financial accounting process and increase performance (Poudel & Hovey, 2013).

For a developing country 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.

The Central bank of Nepal, Nepal Rastra Bank (NRB) has consistently been working to improve the governance of banks by revising and updating, policies and directives. The latest comprehensive directive, stress testing guidelines, CEO's remuneration guidelines,etc are some of the guidelines formulated to ensure better governance in banks.

In spite of such guidelines and directives, corporate governance remains challenging as people with nefarious intentions devise new ways of misusing public money. Nepalese organizations are yet to adopt a good governance culture with adequate care of the general public interest. The demarcation between ownership and management is still not clear. The involvement of directors and staff in fraudulent activities is a serious challenge in Nepal (Khatiwada, 2015). H & B bank (2012) and CEO of KIST bank (2013) faced charged because of misappropriation. Similarly, NABIL (2011) and Himalayan bank (2012) were booked for the theft of the pin number of ATM by the employees.

These cases have created a doubtful environment for the public to deposit their currency to the banks (Khatiwada, 2015). To ensure a better environment of trust and safety among the general people good governance must be focused. Implementing

governance by banks can increase the customer's deposit as well as increase the profitability of banks.

Taking into consideration the background of the study and literature review, the research has been set up with the following research questions:

i. What are the dimensions that represent corporate governance and banking performance?
ii. What are the financial performance of the banks?
iii. Which factor of corporate governance has a significant impact on bank performance?

1.3 Objectives of the study

The general objective of the study is to know the relation between governance factors and bank performance. The objective of this study can be stated as

i. To identify the dimensions that represents the corporate governance and banking performance.
ii. To examine the financial performance of the banks.
iii. To analyze the impact of copporate governance on the performance of banks.

1.4 Hypothesis

In this study, the hypothesis testing is used to test the significance of the relationship between dependent and independent variables:

H1: Board member size (BM) significant negative relation to the bank performance.

H2: Independent directors is significant positive relation to the bank performance.

H3: Leverage ratio is significant negative relation to the bank performance.

H4: Bank size is significant positive relation to the bank performance.

H5: There is significant positive relationship between capital adequacy ratio and bank performances.

H6: There is significant positive relationship between EPS and bank performances.

1.5 Rationale of the study

The research on corporate governance and bank performance are important since the economic aspect is linked with it. The study from various researchers has shown that there is a direct relationship between good governance and the performance of an organization. So, if the organization maintains good governance they will perform good and vice versa. There are various determinants in governance and they vary along with the type of organizations and business sector. These variables also have various levels of impact on the organization. So it's important for the banks to know which variable affects them more and which with less impact.

In Nepal, governance has been the topic of much recent academic work and policy discussion (Khatiwada, 2002; Rawal, 2003 &Kafle, 2004). Paudel and Hovey (2013) investigated the impact of corporate governance on the efficiency of Nepalese commercial banks covering 29 banks. The research showed that a bigger board and audit committee and lower frequency of board meetings with a lower proportion of institutional ownership lead to better efficiency in the commercial banks.

So this study also focuses on determining the impact of variables of good governance on the performance of banks. The board member size, independent director, earnings per share, capital adequacy ratio, leverage, and bank size are used as an independent variable to know their impact in net interest margin and return on equity. This study will ensure the banks can attain the performance by focusing on the relation between the corporate governance variable and performance measuring variables. This study can be used by the banks to maintain the number of board members and the involvement of an independent director.

1.6 Limitation of study

The research was undertaken with the necessary number of samples of banks and time period. However, there were some limitations to this study. The limitations of the study are as follows

i. There are altogether 27 commercial banks operating in the country, but the study does not cover all these commercial banks. Only 11 banks are considered for the purpose of the study. The inclusion of all 27 banks in the study would have provided more valid results.

ii. The study used board member size, independent directors, earnings per share, capital adequacy ratio, leverage, and bank size as independent variables, there are also other variables such as number of board meetings, number of female directors in the board, age period, members in the management team,etc which were omitted.
iii. The study used two dependent variables to develop a relationship. There are other dependent variables such as return on assets that can be taken for study.
iv. The banks which were taken as sample for study were only the commercial banks due to which the relationship between dependent variables and independent variables for development banks, microfinance, insurance companies, and other non-financial institutions may vary.
v. The data collected for the study were for the period of 2014/15 to 2018/19. The study could have been done taking data for a longer period.
vi. It may also be noted that only secondary data were considered for the study purpose. Data collection conducting the primary survey is not taken into consideration. Hence, the result of the study is not broad and flexible. It is limited to the data available in the annual reports of the sample banks.
vii. All the portion of the study is based on secondary data and available information. Therefore, the consistency of finding and conclusion are dependent upon the reliability of secondary data and information.
viii. The time period for research was limited, so research was conducted in a short period.

1.7 Chapter plan

This thesis report has been organized into five distinct chapters. The following brief discussion has been prepared to project the respective chapter wise content.

The first chapter deals with the introduction of the background of the study and subject matter. The chapter includes the statement of the problem and research question, the purpose of the study, the signification of the study, and limitations of the study.

The second chapter includes the literature review of the past study made by various scholars. It also talks about the results obtained by various scholars in their research

and how the concept of corporate governance emerged. Finally, the condition of governance is also high lightened in this section.

The third chapter presents the research design and how the sample for this study was taken. It deals with how the data were collected for the study. This section also involves data analysis and summary.

The fourth chapter presents the findings from the data and analysis of the research. The tools and techniques that are employed to analyze data in an objective, uniform fashion, adding to the overall reliability and rigor of the research process have been indicated in this chapter.

The fifth chapter concludes the thesis report by summarizing the key findings in the scope of corporate governance and banking performance in Nepal. The practical and theoretical contributions emanating from the study are discussed. This chapter finishes by discussing the impilications of the work with the aim to provide possible direction for future studies.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the evidence and findings from the past related studies from various researchers. The studies and evidence were relevant for further investigation regarding corporate governance and bank performance.

2.2 Theoretical Review

Like the government, the word governance derives ultimately from the Greek word Kubernao (to steer). The term governance was re-minted as recently as the 1990s by the economist and political scientist and disseminated by institutions such as UNO, IMF, and World bank. Many theories of governance as a process arise out of neoclassical economics. Those theories built deductive models, based on the assumptions of the modern economy to dhow national actors may came to establish and sustain formal organizations including firms and states, an informal organization such as networks and practices for governing the commons.

The corporate governance went with more diversified, broadening and principles along with period. M. Becht , (2007) had identified five reasons for becoming corporate governance a major issue and becoming prominent to evolve. Those reasons were as follows

a. World-wide privatization wave Privatization had been an important phenomenon not only in Western Europe and Asia but especially in the former communist countries, some of which joined the EU recently. The US was an exception as state ownership of companies had always been very small. This privatization wave had its origin in the UK which was, for example, responsible for 90% of EU privatization proceeds in 1991. Since 1995 Australia, Italy, France, Japan, and Spain alone had generated 60% of total privatization revenues worldwide. The privatization wave raised the question of ownership and controlled of the former state companies. In the countries of Continental Europe, great care was given to ensure the transfer of controlled to large shareholders. The UK, on the contrary, created a form of "shareholder democracy". Privatization boosted the development of the stock markets as most OECD sales had been conducted via public offerings.

b. Pension funds and other institutional investors The private provision for one's old age was common in the US and due to the demographic development in Europe as well. That made pension funds and other institutional investors into large and powerful institutions that could influence corporate governance. Institutional investors in the US alone commanded more than 60% of total equity investment in the OECD, rising to 76% when UK institutions were added. A significant proportion was held by pension funds (approx 40% for the US and UK and 15% for Germany). These investors, therefore, played an increasingly active role in global corporate governance.

c. Mergers and takeovers The hostile takeover wave in the US in 1980 and in Europe in 1990 influenced the public debate on corporate governance. The 200 billion dollar crossed broader hostile bid of Vodafone for Mannesmann in 2000 AD was the largest ever to took placed in Europe. The takeover changed the corporate world of continental Europe. The hostile takeover of Olivetti for telecoms Italia and Generali for INA in Italy and BNP for Paribas and ELF in France, spectacularly shook up the sleepy corporate world of Europe. The deals involved newly privatized giants. These high profile cases moved takeover regulation of domestic and crossed broader deals in the European Union to the top of political agenda.

d. Deregulation and capital integration The greater integration of the world capital market through the introduction of the Euro, mergers of the stock market and the growth of equity capital through the 1990s increased the interest in corporate governance. The increasingly fast-growing corporation in Europe raised capital fromdifferent sources by cross-listing on multiple exchanges and this made more importance of governance for a healthy environment.

e. Economic crisis The East Asia crisis 1998 that started from Thailand and engulfed most of the Asian countries high lightened the weak governance, practices in emerging countries. This led to the reassessment of the Asian model characterized by centralized and hierarchical industrial groups controlled by the management and large investors. There had also been a similar reassessment of mass insider privatization and its concomitant weal protection of small investors in Russia. These crises led international policymakers to conclude the macro-management was not sufficient to prevent crises and need more governance. And the series of scandals and corporate

failure in the USA high lightened the importance of governance. The big corporate giants such as Enron, World telecom, Adelphia communication,etc failed due to corporate governance weakness. These giant failures caused the US economy an unprecedented crisis requiring the US government to pledge billions of dollars to bail out the banks. These incidents focused on the importance of corporate governance and the evolution of governance principles.

2.2.1 Assimilation theory

Hawley & Williams (1998) undertook a literature review of corporate governance as a background paper for the organization for economic cooperation and development. The studied performed by them in the united states identified four models of theories of cooperate governance and they were simple finance model or agency theory, stewardship model, stakeholder model, and political model. Agency theory, stewardship theory, and stakeholder theory were important and at the center of corporate governance. Most of the corporate governance issues were related to the management and shareholders, the differences in views and ideas brought problems in governance. The four theories identified by Hawley and Williams were briefly describe below.

2.2.1.1 Simple finance model / agency theory In this theory, the central problem corporate governance was regarded as to construct rules and incentives for affectively aligning the behavior of managers (agents) with the desires of owners. The rules and incentives in the finance model refer to those established by the firms rather than by the legal or regulatory system of the host country. It assumes managers acts opportunistically for their own interests before the interest of shareholders and due to this problem arises. Such problems rose due to the differences between managers and owners were known as agency problems. These agency problems increase the cost of the agency and brought poor governance in the organization. Therefore, agency theory was developed and this theory was a supposition that explains the relationship between principals and agents in the business and concerned in solving problems that could exist in the agency relationship.

2.2.1.2 Stewardship theory In stewardship theory or model, managers were considered as good stewards of the corporation and they work to attain high levels of corporate profit and shareholders returned. It reinforces the social and professional

kudos of being a manager. Here, managers were considered to be motivated by a need to achieve, to gained intrinsic satisfaction through successfully performing inherently challenging works. They exercise their authority and properly fulfill their responsibilities to gained recognition from their peers and bosses. This theory also supports that there should be non-executive directors on the board so as to had good governance in the organization.

2.2.1.3 Stakeholder theory The firm was a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm activities. The purpose of a firm was to create wealth or value for its shareholders by converting their stakes into goods and services. Therefore, the goal of managers and directors should be to maximize the total wealth of the firm. This theory focuses on increasing the value of the firm instead of on managers or organizations. And for this, it was important ownership like incentives to be provided to those participants in the firms who contribute or controlled critical specialized inputs and to align the interests of critical stakeholders with the interest of outside or passive shareholders. This theory recommends that corporations had long term owners and encouraged board representation by significant customers, suppliers, employees, community representatives, etc.

2.2.1.4 political theory The political model recognizes that the allocation of corporate power, privileges, and profits between owners, managers and other stakeholders was determined by the government. The ability of corporate stakeholders to influence allocation between themselves of the micro-level was subjected to the influence of the corporate sector. The political model of governance had an immense influence on corporate governance development.

2.3 Empirical review

2.3.1 Review of journals articles

There had been many studies performed by scholars to define the relationship between the corporate governance variable and performance. The literature review of their articles helped in selecting the variables and formulating the hypothesis.

The board of directors was the top executive body of a company and assigned the responsibility of formulating policies and strategies and supervising operations of the

company. Fixing the optimal number of board of directors was a dilemma since every studied shows different results on having a number of directors. The summary of the scholars related to the board size and performance of organizations was in table 1.

Table 1: Study on board size and performance

Study	Year	Result
Lipton & Lorsch	1995	Negative relationship
Jensen	1996	Negative relationship
Yermack	1998	Negative relationship
Kiel & Nicholson	2005	Positive relationship
Boone et. Al	2009	Positive relationship
Admaas & Mehran	2010	Positive relationship
Bennedsen, M., Kongsted, H.C., & Neilson, K.M	2013	Negative relationship

Source:Fanta,Ashenafi (2019)

Yermack (1998), in a review of the earlier work of Lipton & Lorsch (1995), argues that large board members tended to be slow in making decisions, and hence could be an obstacle to changed. A second reasoned for the support for small board size was that directors rarely criticize the policies of top managers and this problem tends to increase with the number of board members (Yermack, 1998; Lipton & Lorsch, 1995). Yermack (1998) examines the relationship between board size and firm performance, concluding that the smaller the board sizes, the better will be the performance, and proposing an optimal board size of ten or fewer. Prformed researched on the organization of the UK, France, Netherland, Denmark, and Italy found a negative relationship between board size and performance. However, Adams & Mehran (2010) and Kiel & Nicholson (2005) found a positive relation between board size and performance i.e. bigger the board size higher will be performance. Adams and mehran (2010) found a positive relationship in USA banking firms. Bennedsenet. al (2013) also found a negative relationship between board size and performance in Denmark.

Similarly, the researched had been done to determine the relationship between the independent directors and performance. The composition of board structure was an important mechanism because the presence of non-independent directors represents a

means of monitoring the actions of the executive directors and of ensuring that the executive directors were pursuing policies consistent with shareholders' interests (Fama, 1993). Some authors argued that boards dominated by non-executive directors may help to alleviate the agency problem by monitoring and controlling the opportunistic behavior of management and also by ensuring that managers were not sole evaluators of their own performance (Jensen, 1996). The researched of various scholars and their results were in table 2.

Table 2: Study on independent directors and performance

Study	Year	Result
Pfeffer	1972	Positive relationship
Baysinger&Buttler	1985	Positive relationship
Brickley& keys	1987	Positive relationship
Byrd & Hickman	1992	Positive relationship
Agarwal&Knoeber	1996	Negative relationship
Bhagat& Black	1999	Negative relationship
Hermalin&Weisbach	2001	No relationship

Source:Fanta,Ashenafi (2019)

Independent/outside directors may acted as "professional referees" to ensure that competition among insiders stimulates actions consistent with shareholder value maximization (Fama, 1993). Successfulness of an organization depends on the balanced composition of a board consisting of an internal director and outside directors. Baysitter & Buttler (1985) examined 266 corporations and provided evidence that more independent director on the board size leads to higher performance. This studied supports the researched of Brickley & keys (1987) , Byrd & Hickman (1992) , pfeffer (1972). However, Bhagat & Black (1999) and Agwarwal & Knoeber (1996) found a negative relationship in their researched. And scholar Hermalin & Weisbach (2001) found that having independent directors help in monitoring and supervising but had no correlation.

The reviews of theoretical kinds of literature on financial leverage provide different views on the relationship between financial leverage and financial performance. While some theories predict a positive relationship between leverage and firm's performance, others predict negative relationships and MM proposition i predict the

irrelevance of debt-equity choice on the value of a firm. The results obtained by various researchers were as follows in table 3.

Table 3: Study on leverage and performance

Study	Year	Result
Laurent, W	2002	Negative relationship in Italy and Positive for Germany and France
Berger & B. Patti	2006	Positive relationship
Tian & Zeitun	2007	Negative relationship
Ebaid	2009	No relationship
Maina & kondongo	2013	Negative relationship
Gweiji & karanja	2014	Positive relationship

Source: Fanta,Ashenafi (2019)

Laurent (2002) studied the relationship between leverage and corporate performance in France, Germany, and Italy. The multiple regression techniques were adopted on the studied variables (leverage, tangibility, short-term liabilities, inventory, and size). The studied found mixed evidence depending on the country; while a negative relationship was reported in Italy, the relationship between leverage and corporate performance was significantly positive in France and Germany. Similarly, Berger & b. Patti. , (2006) researched made on the USA banking industry showed a positive relationship. Tian & Zeitun (2007) researched on corporate performance of corporations in Jordan using a panel data approached of 167 companies for a period of 15 years from1989 to 2003, results show that a firm's capital structure had a significant negative effect on the firms' performance using both the accounting and market measurements. In the same way, Makau & Kosimbei (2014) and maria &kondongo (2013) examined the effect of leverage and performance of firms in Kenya and found a negative relationship. Another scholar Eboid (2009) investigated the impact of capital structure on the performance of firms in Egypt and concluded that there was no impact of leverage on the firm's performance.

There had also been a studied done to know the relationship between the firm's size and firm performance. Various scholars had found various results. The following table shows the name of the researcher and their results regarding the relation.

Table 4: Study on firm's size and performance

Study	Year	Result
Clark	1995	Medium size banks are better performer
Goldberg & Rai	1996	Large size banks are not a good performer
Allen & Rai	1999	Large size banks are not a good performer
Berger	2006	Medium size banks are better performer
Wheelock & Wilson	2009	The positive relationship between size and performance
Feng & Serlitis	2010	The positive relationship between size and performance

Source: Mariana, Selva (2016)

The scholars of 1996 found that large-size banks were not capable to operate with efficiency, rather they found the medium-sized banks performing better than small size and large size banks. Allen & Rai (1996) studied the relation among 15 countries and concluded that large size doesn't help in achieving performance. But after 2000, scholars found that there was a positive relationship between size and performance. Another scholar, Feng & Serlitis (2010) analyzed 1270 European banks and concluded that there was a positive relationship between the bank size and performance of the bank.

Adequate capital was regarded as the amount of capital that could effectively discharge the primary capital function of preventing bank failure by absorbing losses. These losses were related to the risks which banks undertake as a natural corollary of their efforts to serve the legitimate credit needs of the community. Adequate capital will provide the ultimate protection against insolvency and liquidation arising from the risk in the banking business. Any company or bank with inadequate capital faces hidden constraints. Its management time was spent on the defensive, working out how to raised capital or how to guard against takeovers. The scholars had also studied the relationship between bank performance and capital adequacy ratio. The studied of scholars and their results was shown in the following table.

Table 5: Study on capital adequacy ratio and performance

Study	Year	Result
Goddard, Molyneux & Wilson	2004	Negative relationship
George, E. H., & Dimitrios, S. S.	2004	Negative relationship
Ngo	2006	No relationship
Kosmidou	2008	Positive relationship
C. Okafor, K. Ikechukwa, U. Adebimpe	2010	Posiationshiptive rel
A. Olalekon & S. Adeyinka	2013	Positive relationship

Source: Mariana, Selva (2016)

Anearlier studied performed by Goddard, Molyneux & Wilson (2004) revealed that banks with a high CAR ratio were operating with over-caution and ignoring potentially profitable trading opportunities and hence had a negative relationship. Ngo (2006) found no relationship between these two variables. But the recent studied of Olalakon, a. , & Adeyinka, s. (2013) in banks of Nigeria showed a significant positive relationship. Likewise, scholar, George & Dimitrios (2004) applied a non-parametric analytic technique (data envelopment analysis, DEA) in measuring the performances of the Greek banking sector with respect to capital adequacy. He proved that data envelopment analysis could be used as either an alternative or complement to ratio analysis for the evaluation of an organization's performance with attention to macroeconomic indicators.

the results of researched done by scholars regarding the relationship between earning per shared and performance were shown in the below table.

Table6: Study on earnings per share and performance

Study	Year	Result
Lamont	1998	Positive relationship
Ammar Gull et. Al	2013	Positive relationship
Mujahid, M., et.al	2014	Positive relationship
S. Balaputhiran	2016	No relationship

Source:Fanta,Ashenafi (2019)

Earnings per shared were the portion of a company profit allocated to each outstanding shared of common stock. Few studies had been done to establish the relationship between the earnings per shared and performance of firms. There were only a few studies related to the relationship among these because earnings per shared were considered as an indicator of bank profitability. Lamout (1998) found that there was a positive relationship between EPS and bank performance. The studied was supported by the studied done in Pakistan by Ammar Gull et al. (2013) and Mujahid, (2014). However, the studied was done by S. Balaputhiran (2016) in listed banks of Srilanka showed no relationship among them. The data were composed of 7 listed banks, finance and insurance sectors covering the period of five years from 2008 to 2012. The correlation method and regression analysis revealed that there was no significant association.

2.3.2 Review of previous theses

The above literature review reveals relationships between corporate governance and performance conducted in foreign countries. The studied had shown that results vary in different countries and even vary in the same country with the time period. The importance of governance in the banking sector and its relationship with performance had been studied in Nepal. Many researchers had studied the relationship between corporate governance and performance in the context of Nepalese banks. For the current studied, the studied done by various researchers in Nepal was useful. The studied was useful to built hypotheses with more confidence and compare the relationship with the current studied. The scholar's results were shown in the following table 7.

Table 7: Study on corporate governance and performance in Nepal

Study	Year	Findings
Pokhrel	2007	The studied results to ensure good corporate governance in nepal requires a joint effort of the investors (promoters) who need to be more transparent, responsible and socially accountable; the shareholders who must actively participate in their corporate affairs to help prevent any fraudulent and insider practices.
Ghimire	2010	The results supported that there was a positive relationship between firm-specific corporate governance and firm value.
Shrestha	2011	The results showed that there was a negligible role of corporate governance in financial institutions of nepal.
Poudel and Hovey	2013	The results showed that bank efficiency was influenced by macroeconomic and bank internal specific factors.
Thapa	2014	Governance aims to protect shareholder's rights, to enhance disclosure and transparency, to facilitate effective functioning of the board and to provide an efficient legal and regulatory enforcement framework.
Niraula	2015	The positive relationship of board size, audit committee size with bank efficiency while the negative relationship of board meetings and lowered proportion of institutional ownership with bank efficiency was documented
Sapkota	2016	Governance ensures to attain the strategic objectives of the company, which means the company achieves the financial performance.

2.3.3 Review of research report or other related literature

The financial sector reform was initiated by the central bank the government with a view of enhancing the corporate governance and performance of the banking sector especially the state-owned banks (Sapkota, 2016). The sample of the studied consisted of 20 commercial banks. Using a descriptive researched design, the studied emphasized the relation between corporate governance and performance.

In the backdrop of the 1997-1998 economic crises in the Asian countries, Niraula (2015) highlighted the importance of developing countries such as Nepal. The studied argued that good governance of banks was crucial for the survival of its economy. The studied investigated the impact of corporate governance on the efficiency of Nepalese commercial banks. Secondary data for sample 29 commercial banks operated in Nepal out of 31 commercial banks for the recent period of 2005 to 2011 were analyzed when most of the regulatory decisions were taken by the central bank of Nepal for corporate government improvisation. Corporate governance variables were represented by the board, independence and diligence, audit committee size, independence and diligence, and ownership structure.

The concern over corporate governance was rocketing not only in developed economies but also in poor economies like Nepal where recent issues of bad corporate governance in the financial sector had emerged (Shrestha, 2011). The studied focused on the effect of corporate governance on bank performance. The results showed there was a negligible role of governance in banks. Similarly, another researcher Ghimire did a studied with the major objective to examine the effect of fundamental variables on corporate governance in nepal and the specific objective was to analyze the relationship between corporate governance variables such as institutional ownership, public capital, and public director, etc. with the performance of the firm. Pooled sectional data for 14 enterprises other than the financial institutions were studied using a total of 98 observations. Evidence from nepalese listed firms addresses the question of whether “good” corporate governance had a positive impact on the firm’s valuation. The studied had been conducted by using a board sample of listed Nepalese firms. To provide a comprehensive analysis, the studied used aboard the corporate governance index and two additional governance mechanisms: ownership concentration and leverage. The result supported the widespread hypothesize – a positive relationship between firm-specific corporate governance and firm value (Ghimire, 2010).

To ensure good corporate governance in Nepal requires a joint effort of the investors (promoters) who need to be more transparent, responsible and socially accountable; the shareholders who must actively participate in their corporate affairs to help prevent any fraudulent and insider practices and; the regulatory authority that should

effectively enforce rules and regulation in ordered to protects the rights of all stakeholders and create favorable environment to enhance good corporate governance culture (Pokhrel, 2007).

The hypotheses had been developed regarding the relationship between the independent variables and dependent variables. The hypothesis had been developed on the basis of the researched done by various scholars in the past.
Board size and performance the structure and size of the corporate board size received much attention in the media and corporate community after the business failure of a large corporation such as enron, world. com and parmalat. There were many views regarding having the proper number of members in board size. Jensen (1996), Lipton & Lorsch (1995) argued that huge board size makes the organization less efficient due to the agency problems among the members. Along with the agency problem, other problems such as arranging a meeting, reaching consensus leads to slow and less efficient decision making and this badly hampers the performance of the corporation. The studied performed by Yermack (1998) among 452 corporations in the usa, also showed there was a significant negative relationship between board size and performance. Therefore, the hypothesis for this studied was as followed:
H1: Board member size (BM) had a significant negative relation to the bank performance.

Independent directors and performance the concept of independent director was an important subject within the board concept of corporate governance. The independent director role and importance had increased with the rise in agency problems, misuse of corporate resources and disregard for the shareholder benefit (Barnhart & Rosenstein, 1998). Fama & Jensen (1993) pointed out that outside directors could perform better in supervision than inside directors. With the independent director, the organization could maintained transparency and helps in achieving success. If the ratio of independent directors was higher in board members, the performance aspects of the company would be higher (Yonca e. , Fabrizio, f. , Stephen, s. (2010). Therefore the next hypothesis will be
H2: Independent directors had a significant positive relation to the bank performance.
Leverage and performance leverage costs were at the center of the regulatory policy responses to the current financial crisis, as on the g-20 and basel committee on bank

supervision had to revise on a new leverage ratio. It was argued that a minimum leverage ratio could help curb the bank's incentives for regulatory arbitrage. Higher leverage means higher costs because of the diverging interest between shareholders and the debt holders (Jensen & Meckling, 2001). The researched performed by Majundar and Chinner (2003) on the sample of indian firms found a significant negative relationship between leverage and corporate governance. Similarly, Kinsman and Newman's (1999) researched on us firms showed a negative relation between leverage and performance. However, Nickbell & Nicolotsas(1999) found a positive but weak relationship with each other. And a recent studied by Laurent Weill (2002) found a negative relation between leverage and performance in italy but a significant positive in germany and france. Therefore the third hypothesis will be

H3: Leverage ratio had a significant negative relation to the bank performance.

Bank size and bank performance in this studied the bank size was considered by the size of capital. Banks with high capital was considered a large bank size and vice versa. Banks with large sizes could expand their product, service, location,etc easily due to which they could perform better in the environment. Nepal rastra bank (NRB) which was established with the aimed to maintained the financial stability and preserve banks had also made compulsory for banks to raised their paid-up capital till mid-July 2017. This signifies that the bank with higher capital was more secure and able to perform better. Similarly,astudy performed Byamelet al. ,(2004) in the USA showed banks with higher capital performed better. Therefore the hypothesis will be as

H4: Bank size had a significant positive relation to the bank performance.

Capital adequacy ratio (CAR) and bank performance a measured of the capital strength of a bank was the capital adequacy ratio, which was the amount of the bank regulatory capital expressed as a percentage of its risk-weighted assets. Capital adequacy ratio plays a crucial role in the long term financing and solvency position of banks, especially in helping banks to avoided bankruptcy and negative externalities. Adequate capital was regarded as the amount of capital that could efficiently discharge the primary function of preventing banking industries' failure by absorbing the loss without being forced into costly liquidation and enables banking industries to took full advantage of its profitable growth opportunity (akintoye&somoye, 2008). The studied was done by Olaken & Adeyinke (2013) in kenya showed that there was

a positive effect between capital adequacy and profitability. Since profitability was attained by good performance, it could be said there was a positive relation between car and bank performance. So the hypothesis will be as

H5: There was a significant positive relationship between capital adequacy ratio and bank performances.

Earnings per share (EPS) and bank performance earnings per shared were the proportion of a company's profit allocated to each outstanding shared of common stock. It serves as an indicator of company profitability and performance. EPS reflects the good and bad position of the companies. Since with the increase in EPS, it shows banks were performing well. The relationship between eps and performance could be assumed as positive. A studied was done by Lamont (1998) also shows there was a positive relationship among them. So the hypothesis will be a positive relationship among them**.**

H6: There was a significant positive relationship between EPS and bank performances.

2.3.4 Summary of articles and theses

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. As Levine (2004) notes, "Banks can alter the risk composition of their assets more quickly than most nonfinancial industries, and banks can readily hide problems by extending loans to clients that cannot service previous debt obligations."

Recent academic work and policy analyses give insight into the governance problems exposed by the financial crisis and suggest possible solutions. The identified four major dimensions of governance i.e. executive compensation, board size, risk management, and market discipline and these had a significant impact on the financial crisis.

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.

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.

In this connection, the Nepalese financial sector is in the course of consolidation with respect to 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.It has been almost ignored by researchers (Caprio& Levine, 2002). In the Nepalese context also, in terms of numbers and scope of studies, research in the area of corporate governance needs to be emphasized.

2.4 Research gap

The research gap refers to the gap between previous research and this research. A previous research study has been conducted by different students, experts, and researchers about corporate governance and performance in Nepalese commercial banks.

Previous studies related to this case study have only included three banks. In my study, I have mentioned about eleven banks "NMB Bank, Nabil Bank, Everest Bank, Nepal SBI Bank, Himalayan Bank, Lami Bank, Sunrise Bank, Nepal Investment Bank, Siddartha Bank, NepalBank, Rastriybanijya Bank**".**

There are also differences in the time period of the given case study. In previous cases,there is a time duration of 2007/08 to 2011/12. But in my case, there is a time duration of 2014/15 to 2018/19. Previous researcher has used return on assets (ROA) and return on equity (ROE) as a base. In my case, I have used a return on equity (ROE) and net interest margin (NIM). The following are the points that make my case differently than the previous one.

The research on corporate governance and financial performance in the context of Nepalese bank has made a partial contribution to the central bank of Nepal, commercial banks and other financial institutions, upcoming researchers and other non-financial institutions. The analysis of data using correlation and regression helped to find the relationship among dependent variables and independent variables. This result can be helpful forthe above-mentioned individuals and organizations.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This study of measuring the relationship between corporate variables and performance variablesis also guided with the research design. It includes the methodology used, data gathering, and data analysis.

3.2 Research design

This study has employed a descriptive research design and causal-comparative research design to deal with issues raised in the study that influence the performance of the selected commercial banks in Nepal. The descriptive research design helps in fact-findings, searching for adequate information about components of corporate governance and the performance of Nepalese banks. Such design involves the systematic collection and presentation of data to give a clear picture of the situation. To describe the nature of data of the commercial banks during fiscal year 2014/15 through 2018/19 descriptive statistics are used.

The research design attempts to analyze the relationship between corporate governance variable (independent) and performance variable (dependent) of the bank. Therefore, comparative research designs in used to analyze the relationship among the variables.

3.3 Population, sample and sampling design

The study is based on the secondary data which were gathered for 27 banks in Nepal. The main source of data are Banking and Financial Statistics published by Nepal Rastra Bank which is supplemented by NRB directives, legal provisions incorporated in Companies Act, 2063 and concerned by-laws regarding corporate governance, the provisions on Bank and Financial Institutions Act, 2073; supervision reports of Nepal Rastra Bank and so on.Thedate and few banks are in the stage of merging with each other so in future the number of banks can further go down. For the purpose of this research, only 11 banks are selected as a sample. The selection of banks is based on random sampling. However, banks went for merge in recently 5 years.The sample which I have taken represents all 27 commercial banks in Nepal. The list of selected banks with study period as presented in table 3.3.1

Table 3.3.1: Selection of commercial banks along with study period

S.no	Lists of Banks	Study period
1	NMB bank	2014/15-2018/19
2	Nabil bank	2014/15-2018/19
3	Everest bank	2014/15-2018/19
4	Nepal SBI bank	2014/15-2018/19
5	Himalayan bank	2014/15-2018/19
6	Laxmi bank	2014/15-2018/19
7	Sunrise bank	2014/15-2018/19
8	Nepal investment bank	2014/15-2018/19
9	Siddartha bank	2014/15-2018/19
10	Nepal bank	2014/15-2018/19
11	Rastriybanijya bank	2014/15-2018/19

Source:Nepal rastra bank annual report(2020)

3.4 Data collection procudere and instrument

The data for this study ware collected from the secondary sources. The main sources of the data were the annual report published by these banks for the auditors, Nepal Rastra Bank, and the public. Since the data are collected from the annual report so the chances of error in collecting data is rare. Furthermore, data were verified by the auditors and central bank, the data and information obtained from the source are totally accurate. Data have also been refined into the desired data from the information obtained from the annual reports.

3.5 Data processing procedure and data analysis method

The major purpose of this study is to examine corporate governance and bank performance in context to Nepalese banks. In order to explain the relationship between corporate governance and bank performance, the following models have been used.

Model 1

In this model, the dependent variable is the return on equity and independent variables are board size, a number of independent directors in board size, leverage ratio, bank size, earning per share and capital adequacy ratio. The model is presented below

$ROE = \beta0 + \beta1BM + \beta2ID + \beta3LEV + \beta4BS + \beta5EPS + \beta6CAR + e$

Model 2

In this model, the dependent variable is Net interest margin and independent variables are board size, the number of independent directors in board size, leverage ratio, bank size, earning per share and capital adequacy ratio. The model is presented below

$NIM = \beta0 + \beta1BM + \beta2ID + \beta3LEV + \beta4BS + \beta5EPS + \beta6CAR + e$

Where,

$\beta0, \beta1, \beta2, \beta3, \beta4, \beta5, \beta6$ are the regression coefficient

ROE= return on equity

NIM=net interest margin

BM= board member size

ID= number of independent director

LEV= leverage

BS= bank size (paid up capital)

EPS = earnings per share

CAR= capital adequacy ratio

Here,

Return on equity (ROE) is the amount of net income returned as a percentage of shareholder equity and calculated as

$$ROE = \frac{\text{Net income}}{\text{Stockholder equity}} \times 100$$

Net interest margin (NIM) is a performance indicator that examines how successful a bank's investment decisions are compared to its debt situation. It is calculated as

$$NIM = \frac{\text{Interest income} - \text{Interest expenses}}{\text{Earning assets}} \times 100$$

The leverage ratio portrays the proportion of a bank asset financed by the equity. It is calculated as

$$LEV = \frac{\text{Core capital}}{\text{Risk}-\text{weighted assets}} \times 100$$

Capital adequacy ratio (CAR) is the measure of bank capital to its risk assets. It is calculated as

$$CAR = \frac{\text{Tier 1 capital} + \text{Tier 2 capital}}{\text{Risk−weighted assets}} \times 100$$

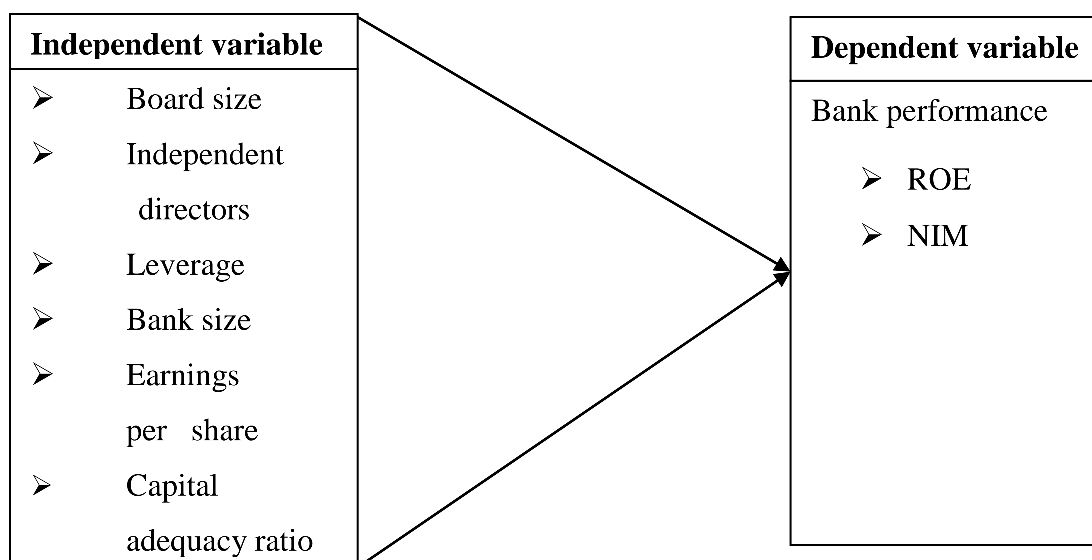
Earnings per share (EPS) are the proportion of a company profit allocated to each outstanding share of common stock. It is calculated as

$$EPS = \frac{\text{Net Income}}{\text{Number of share outstanding}}$$

3.6 Research framework and definition of variables

Based on the literature review and the research objectives, the current study develops the conceptual framework. The conceptual framework of the study explains the systematic explanation of the relationship between the dependent and independent variables. It helps to focus on the research problem and achieve the research objective. A description of the framework contributes to a research report in two ways; it identifies research variables and clarifies the relationship between the variables. Linked to the problem of the statement, the conceptual framework sets the stage for the presentation of the specific research question that drives the research. The conceptual framework for this research is shown in the below diagram.

Figure 1: Conceptual framework for the study



The conceptual framework for this study is derived from the previous studies carried out by different scholars. This study focuses on the relationship between corporate

governance and bank performance. In figure 1, the independent variables are board size, the number of independent directors, leverage ratio, bank size in terms of capital and reserve, earning per share and Capital Adequacy Ratio. And dependent variables are returned on equity and net interest margin. This figure suggests that return on equity and net interest margin which are the indicator of the performance of banks are linked with the board size, independent directors, leverage, earning per share, capital adequacy ratio and bank size. These governance factors influence the performance of banks.

The number of directors on board hasa crucial role in the performance of the firm. Directors are responsible to ensure the management is working properly and working as per the directives and guidelines formulated by it. Directors formulate policies, rules, regulation and take important decisions on behalf of the organization. Lipton & Lorsch (1995) and Jensen (1996) argues that having the big number of directors in boards lead to agency problem and delay in the decision-making process and hence decreases the performance of the bank. However, it can also be noted that with the increase in the number of directors on the board, the decision taken is more fruitful for the organization since directors are people having good knowledge and experience. So there can be a relationship established between the number of board directors in committee and bank performance.

Independent directors are the directors that ensure the director's decisions are safeguarding the interest of general shareholders. They make sure that directors are not making any decisions that are too risky for the shareholders and other stakeholders. Many banks and organizations have failed due to the wrong intentions of directors to attain high profits by making risky decisions. The chairman of finance service authority cited six reasons for the collapse and among them, it was directors' decisions to make over-reliance on risky small-term wholesale funding and inadequate due intelligence during acquisition. Therefore, it's important to have independent directors on the board to rectify the enthusiastic decision of directors and maintain the good performance of banks.

Definition of variables

This section has defined some of the terminology used in this research.

Agency theory It is a supposition that explains the relationship between principals and agents in the business. It is concerned with resolving problems that can exist in an agency relationship.

Acquisition It is a corporate action in which a company buys most, if not all, of the target company ownership stakes in order to assume control of the target firm.

Bankruptcy It is a legal status of a person or entity that cannot repay the debts it owes to the creditors.

Code of ethics Defines acceptable behaviors, promotes high standards of practice, and provides a benchmark for members to use for self-evaluation and establish a framework for professional behaviors and responsibilities.

Financial performance This is a measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period.

Governance structure 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.

Independent director They are the directors of the board of members who don’t have a material or pecuniary relationship with the company or related person, except sitting fees.

Merger It is a deal to unite two existing companies into one new company.

OECD It stands for the organization for Economic Cooperation and development. It promotes policies that improve the economic and social well being of people.

Political theory The allocation of corporate power, privileges, and profits between owners, managers and other stakeholders is determined by the government.

Shadow banking A system where financial intermediaries are involved in facilitating the creation of credit across the global financial system but members are not subject to regulatory oversight. It refers to unregulated activities performed by a regulated institution.

Shareholders An individual, group or organization that owns one or more shares in a company and in whose name the share certificate is issued.

Stakeholder theory Managers and shareholder combine act to maximize the total wealth creation of the firm.

Stakeholders people who are affected or affected by any organization'sactions, objectives and policies.

Stewardship theory It assumes managers are good stewards of the corporation and work for the growth of the organization without any expectation of incentives.

Tier 1 capital / core capital It is the core measure of banks' financial strength from a regulator viewpoint and is composed of common stock and disclosed reserves.

Tier 2 capital It is the secondary component of bank capital and composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments, subordinated term debt.

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Results

Data analysis is an important stage in the research process. The purpose of analysis is to change it from unprocessed form to an understandable presentation. It is the process of developing answer to the question through the examination and interpretation of data. Chapter four provides systematic presentation, interpretation and analysis of secondary data in order to know the relationship among these dependent and independent variables.

4.1.1 Presentation of data

4.1.1.1 Descriptive statistics

Table 4.1.1.1 presents the descriptive statistics for the effects of various independent variables on bank performance, including the maximum, minimum, mean and standard deviation for all variables

Table 4.1.1.1 Descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation
BM	5.00	11.00	8.00	1.00
ID	1.00	3.00	2.00	1.00
ROE	14.50	32.78	17.51	8.92
CAR	10.43	21.29	15.55	3.78
EPS	30.04	38.87	35.62	26.50
BS	3720334458.55	9806952579.0	6072919560.7	2218473131.89
NIM	8.12	15.44	12.73	4.23
LEV	7.58	35.00	10.93	4.05

Table 4.1.1.1 provides descriptive statistic- minimum, maximum, mean, and standard deviation for the variables associated with 11 sample banks for the period 2014/15 to 2018/19. BM refers to number of board members in board committee, ID refers to number of independent directors in board committee, ROE refers to return on equity, CAR refers to capital adequacy ratio, EPS refers to earnings per share, BS refers to bank size, NIM refers to net interest margin and LEV refers to leverage ratio.

As shown in table 4.1.1.1, ROE ranges from 14.50 % to 32.78% with an average of 17.51 %. The standard deviation for ROE is 8.92 %. Similarly net interest margin ranges from 8.12 % to 15.44 %. The mean for it is 12.73 % and standard deviation 4.23 %. The Board of directors in board committee ranges from 5 to 11 members with mean of 8 members. Similarly, the number of independent director ranges from 1 to 3 with mean number of 2 independent directors. Capital adequacy ratio ranges from 10.4% to 21.29 % with mean of 15.55 % and standard deviation of 3.78%. The earnings per share of banks range from Rs 30.04 to Rs 38.87. The mean and standard deviation of earnings per share is 35.62 and 26.50 respectively. The bank size ranges from Rs 3720334458.55 to Rs 9806952579 and with an average of Rs 6072919560.72. And finally leverage ranges from 7.58% to 35% with average 10.93 % and standard deviation of 4.05 %.

4.1.1.2 Correlation analysis

Correlation analysis is a statistical approach used to determine the level of association between two variables to explain the direction of a variable if that of the original data should change or remain unchanged. Thus, the degree of correlation indicates the direction of movement between the variables. Correlation enables the study to predict the effect of one variable on the direction of another. It is worth pointing out that correlation does not suggest causality, rather, the direction of the change or movement. A strong, or high, correlation means two or more variables have a strong relationship with each other while a weak, or low, correlation means that the variables are hardly related. The Pearson correlation has been computed and the results are present in following table.

Table 4.1.1.2: Pearson's correlation matrix dependent and independent variables

	BM	1D	ROE	CAR	EPS	BS	NIM	LEV
BM	1							
ID	.820 **	1						
ROE	-.323*	.183	1					
CAR	-.151	.200	.392**	1				
EPS	-.389**	.408**	.786**	.312*	1			
BS	-.487**	-.509**	.465**	.244**	.523**	1		
NIM	-.163	.051	.100	.66	.146	.120	1	
LEV	-.125	-.194	-.468**	.980**	-.382**	-.304**	-.056	1

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

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

This table presents the vicariate Pearson coefficients between the variables. The correlation coefficients are based on the data from 11 banks with for the period of 2014/15 through 2018/19. BM refers to number of board member, ID refers to independent director, ROE refers to return on equity, EPS refers to earning per share, BS refers bank size, NIM refers to net interest margin and LEV refers to leverage.

In table 4.1.1.2, the number of board member in banks has negative relationship with the performance of banks. Here, it has significant negative relationship with ROE only but not with NIM, which were considered as measure of bank performance in this research. The study revealed that the negative relationship with ROE is strong and significant at the .05 level. It indicated that with the decrease in members in board committee will enhance the performance of the bank. Similarly, the board member has negative relationship with most of other variables such as Capital adequacy ratio, earnings per share, bank size and leverage but has positive with independent directors.

The independent directors have positive relationship with indicators of bank performance i.e. ROE and NIM. However, there is weak positive relationship. This result shows that to have better performance the number of independent director should be made maximum. It has positive relationship with other variables too except leverage and bank size. There is significant positive relationship with board member size, earning per share and negative relationship with bank size at the significance of 0.01 levels.

Capital adequacy ratio has positive relationship with the return on equity and net interest margin. The positive relationship with ROE is significant but with the net interest margin there is no significant relationship. Likewise, it has positive relationship with independent director, earnings per share, bank size, Leverage and negative with Board member size. It has significant positive relationship with leverage and bank size.

The earnings per share is positively related with return on equity and net interest margin. It means that with the increase in EPS there will also be increase in performance of bank i.e. the ROE and NIM of bank will raise. There is strong positive relationship with ROE but low with NIM. The study also further reveals that its relationship with bank size, independent director and capital adequacy ratio is positive

and negative with board member and leverage. It has got significant negative relationship with BM, LEV and positive with ID, ROE at 0.01 level and CAR at 0.05 levels.

The bank size is positively correlated with the return on equity and net interest margin which indicate that with the large capital and reserve the bank financial performance will be high. Its relationship with ROE is significant but with NIM it's weak. It has also positive relationship with EPS and CAR but negative with the rest variables. There is strong negative relationship with board member, independent directors and leverage and weak relationship with capital adequacy ratio.

The leverage has negative relationship with the return on equity and net interest margin, the bank performance measure. This indicates that with the increase in leverage, the bank performance will be low. It has significant negative relationship with other variables such as EPS, BS and weak negative relationship with board size and independent director. It has positive relationship with capital adequacy ratio and it's strong also.

4.1.1.3 Regression analysis

In order to test the statistical significance and robustness of the results, the study relies on secondary data analysis based on the regression model specified in chapter 3. It basically deals with the regression results from various specifications of the model to examine the estimated relationship of independent variables (board member size, independent director, capital adequacy ratio, earning per share, bank size, and leverage) with dependent variable (return on equity and net interest margin). The regression results have been presented in the tables below.

4.1.1.3.1 Regression result of return on equity and independent variable

The regression of independent variable on return and equity are presented in the following table 4.1.1.3.1

Table 4.1.1.3.1 Regression analysis of return on equity and independent variable

	Beta	T	Sig.
(Constant)	23.735	2.619	0.012
BM	-2.914	-2.621	0.012
ID	5.089	2.645	0.011
CAR	0.785	0.753	0.455
EPS	0.236	6.568	0.00
BS	2.953	0.634	0.529
LEV	-1.036	-0.999	0.323

The results are based on regression analysis data of 11 banks for the period of 2014/15 to 2018/19 by using linear regression model. The model is ROE= $\beta 0+ \beta 1BM+ \beta 2ID+ \beta 3LEV+ \beta 4BS+ \beta 5EPS+ \beta 6CAR+ e$, where BM, ID, LEV, BS, EPS and CAR are board member size, independent directors, leverage, bank size, earnings per share and capital adequacy ratio.

The regression of independent variables on return on equity show that beta coefficient for independent director, capital adequacy ratio, earnings per share and bank size is positive as indicated in table 4.1.1.3.1. It indicates that higher the independent director, higher will be the return on equity. This study result was similar as done by Fema & Jensen (1993). Similarly, higher the capital adequacy ratio higher will be the bank performance. The study is consistent with the Kosmideu (2008), A. Olalekon & S. Adeyinka (2013). Likewise, increase in bank size will increase the return on equity. The results are similar as done by Amel et al., (2004), vafeas (2015) and Feng & Serlitis (2010). Finally, with the increase in earnings per share, there will be increase in return on equity. The study is similar as with lamount (1998).

The regression analysis showed that beta coefficient of board member size and leverage is negative to the return to equity. This means that higher the number of board member in banks and leverage ratio, lower will be the return on equity for the banks. Lipton & Lorsch (1995),Jensen (1996) and Yermack (1998) also concluded that there is negative relationship between board member and bank performance.

However, relationship is significant for board member size, independent directors, and earnings per share. The relationship is insignificant for capital adequacy ratio, bank size and leverage.

4.1.1.3.2 Results of multiple regression coefficients

Table 4.1.1.3.2 Model summary

Model	R	R Square	Std. Error of the Estimate
1	.845[a]	.715	5.05471

a. Predictors: (Constant), Leverage, Board Member, Earning per Share, Bank Size, Independent Directors, Capital Adequacy Ratio.

In table 4.1.1.3.2 it can been seen that in examining independent variables (board member size, independent director, earning per share, capital adequacy ratio, bank size, leverage) on dependent variable return on equity are acceptable and significant at a confidence level of 95%. Meanwhile, determine coefficient is equivalent to 0.715 that means 71.5% of the independent variables can be predict the dependent variable changes.

4.1.1.3.3 Regression result of net interest margin and independent variable

The regression of independent variables on net interest margin is presented in following table 4.1.1.3.3

Table 4.1.1.3.3: Regression analysis of independent variables on net interest margin

	Beta	T	Sig.
(CONSTANT)	7.975	1.967	0.012
BM	-0.767	-1.541	0.130
ID	1.264	1.468	0.149
CAR	0.550	1.178	0.245
EPS	0.016	1.013	0.316
BS	1.244	0.598	0.553
LEV	-0.548	1.181	0.243

The results are based on regression analysis data of 11 banks with for the period of 2014/15 to 2018/19 by using linear regression model. The model is NIM= $\beta0+$

β1BM+ β2ID+ β3LEV+ β4BS+ β5EPS+ β6CAR+ e, where BM, ID, LEV, BS, EPS and CAR are board member size, independent directors, leverage, bank size, earnings per share and capital adequacy ratio.

The regression of independent variables on net interest margin shows that beta coefficient for independent directors, earnings per share, bank size and Capital adequacy ratio is positive as indicate in table 4.1.1.3.3. The result shows that with the increase in independent directors, the net interest margin of banks will be higher. The study results are similar as of scholar Baysinger & Buttler (1985), Pfeffer (1972) and Byrd & Hickman (1992). Likewise, table also makes sure that with the increase in earnings per share will increase the net interest margin. The research results are similar as of Lamout (1998), Ammar Gull et al., (2013) and Mujahid et al., (2014). Likewise, higher the bank size in terms of capital and reserve makes higher net interest margin. The study results get similar with Vafeas (2015) and Wheelock & Wilson (2009) but get opposite of Clark (1996) and Goldberg & Rai (1996), which preferred medium size firms for better performance. Finally, the study of Kosmidou, Okafor et al., Olalekon & Adeyinka, stated that positive relationship among capital adequacy and performance is similar with the current study.

The beta coefficients of board member size and leverage are negative with the net interest margin. This means that higher the number of board member in banks and leverage, lower will be the net interest nargin for the banks. Lipton & Lorsch (1995),Jensen (1996) and Yermack (1998) also concluded that there is negative relationship between board member and bank performance. Likewise, with the increase in leverage, there will be decrease in net interest margin. The results are contrast with Gweiji & Karanja (2014) and Berger & Patti (2006) but similar with Tian & Zeitun (2007) and Maina & Kandongo (2013).
However, the results of table presents there is no significance relationship with any of the variable.

4.1.1.3.4 Results of regression coefficient

Table 4.1.1.3.4 Model summary

Model	R	R^2	Std. error of estimate
2	0.298	0.089	2.26095

In above table, it can been seen that in examining independent variables (board member size, independent director, earning per share, capital adequacy ratio, bank size, leverage) on dependent variable net interest margin. The table shows that 8.9 % of the independent variable can predict the dependent variable.

4.1.2 Major findings

The study has mainly focused on impact of corporate governance determinants on the performance of the Nepalese banks. This study used return on equity and net interest margin as dependent variable whereas number of directors in board member, independent directors in board members, earnings per share, leverage ratio, capital adequacy ratio and bank size as independent variables. The results are obtained by making study based on the selected 11 commercial banks.

i. The correlation analysis shows that board member size and leverage are negatively correlated with the bank return on equity and net interest margin. The correlation is significant for the board member size. The correlation is significant at 0.01 levels. Likewise, there is positive correlation of bank performance with independent directors, capital adequacy ratio, earnings per share and bank size. There is high correlation among these factors and are significant at 0.01 level except for independent director. In both cases, the net interest margin does not have significant relationship. In both cases of positive and negative relationship, net interest margin holds weak relationship and insignificant relationship.

ii. The regression of independent variable on return on equity shows that beta coefficient for independent director, capital adequacy ratio, earnings per share and bank size is positive as indicated in table 4.2.3.1. It indicates that higher the independent director, higher will be the return on equity. This study result was similar as done by Fama & Jensen (1993) and Chau& Gray (2010). Similarly, higher the capital adequacy ratio higher will be the bank performance. The study is consistent with the Kosmideu (2008), A. Olalekon & S. Adeyinka (2013). Likewise, increase in bank size will increase the return on equity. The results are similar as done by Amel et al., (2004), Vafeas (2015) and Feng & Serlitis (2010). Finally, with the increase in earnings per share, there will be a corresponding increase in return on equity. The study is similar as with Ammar Gull et. Al., (2013) and Lamont (1998). The regression analysis showed that beta coefficient of

board member size and leverage is negative to the return to equity. This means that higher the number of board member in banks and leverage ratio, lower will be the return on equity for the banks. Lipton & Lorsch (1995), Jensen (1996) and Yermack (1998) also concluded that there is negative relationship between board member and bank performance. Likewise, Jensen & Meckling (2001), Majundar & Chinner (2003) and Karray & Chichti (2013) also supported that there is negative relationship between leverage and firm performance. However, relationship is significant for board member size, independent directors, and earnings per share. The relationship is insignificant for capital adequacy ratio, bank size and leverage.

iii. The regression of independent variables on net interest margin shows that beta coefficient for independent directors, earnings per share, bank size and Capital adequacy ratio is positive as indicate in table 4.2.3.3. The result shows that with the increase in independent directors, the net interest margin of banks will be higher. The study results are similar as of scholar Baysinger & Buttler (1985), Pfeffer (1972) and Byrd & Hickman (1992). Likewise, table also makes sure that with the increase in earnings per share will increase the net interest margin. The research results are similar as of Lamout (1998), Ammar Gull et al., (2013) and Mujahid et al., (2014). Likewise, higher the bank size in terms of capital and reserve makes higher net interest margin. The study results get similar with Vafeas (2015) and Wheelock & Wilson (2009) but get opposite of Clark (1996) and Goldberg & Rai (1996), which preferred medium size firms for better performance. Finally, the study of Kosmidou(2008), Okafor et al. (2010), Olalekon & Adeyinka(2013), stated that positive relationship among capital adequacy and performance is similar with the current study. The beta coefficients of board member size and leverage are negative with the net interest margin. This means that higher the number of board member in banks and leverage, lower will be the return on equity for the banks. Lipton & Lorsch (1995), Jensen (1996) and Yermack (1998) also concluded that there is negative relationship between board member and bank performance. Likewise, with the increase in leverage, there will be decrease in net interest margin. The results are contrast with Gweiji & Karanja (2014) and Berger & Patti (2006) but similar with Tian & Zeitun (2007) and Maina & Kandongo (2013).In overall, the results of table presents there is no

significance relationship with any of the variable. So we can neglect the relationship of variables with the net interest margin.

iv. From regression table, it is noted that for return on equity, independent director has more impact since its beta is 5.089 and there is significance. It states with one unit change in independent director there will 5 units positive change in return on equity. Similarly, other corporate factors that impacts more to return on equity are bank size (2.953) board member (-2.914) and earnings per share (0.236). Similarly, for the net interest margin, also it is independent director that has more impact and its beta of 1.264. However, study doesn't find any significant relationship. Other factors that has insignificant impact on the net interest margin are bank size (1.24), leverage ratio (-0.548), earnings per share capital adequacy ratio (0.550) and board member in committee (-0.767). Beta shows the level of impact on the dependent variables.

v. Likewise, the hypotheses for the board member size, earning per share and independent directors have been partially accepted. Their relationships are significant so as to prove the hypothesis. Other study also was similar to the hypothesis but due to the insignificant relationship between dependent variable and independent variable, hypothesis for them could not be accepted.

4.2 Discussion

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 scanty (Niruala,2007).

Good governance means little expropriation of corporate resources by managers or controlling shareholders, which contributes to better allocation of resources and better performance. As investors and lenders will be more willing to put their money in firms with good governance, they will face lower costs of capital, which is another source of better firm performance. Other stakeholders, including employees and suppliers, will also want to be associated with and enter into business relationships

with such firms, as the relationships are likely to be more prosperous, fairer, and long lasting than those with firms with less effective governance. Implications for the economy as a whole are also obvious. Economic growth will be more sustainable, because the economy is less vulnerable to a systemic risk. With better protection of investors at the firm level, the capital market will also be boosted and become more developed, which is essential for sustained economic growth. At the same time, good corporate governance is critical for building a just and corruption-free society. Poor corporate governance in big businesses is fertile soil for corruption and corruptive symbiosis between business and political circles. Less expropriation of minority shareholders and fewer corruptive links between big businesses and political power may result in a more favorable business environment for smaller enterprises and more equitable income distribution (Mariana, 2016).

Corporate governance is important for the success of long term development in developed, developing, transitional and emerging market economies. The quality of governance in institutions matters greatly for development of nation as whole. Corporate governance in banks is different from other corporation or institutions. The level of negative impact in nation is much higher due to failure of corporate governance in banks than other non-financial institutions. Therefore, the corporate governance importance in financial institution is higher and needs to be properly regulated.

Focusing too much on governance can lead to unfavorable conditions for the banks and other financial institutions for operation. It can just restrict the banks in their operation and hamper the financial institutions. This can also bring a negative impact on nation. Financial institutions are the growth engines for the nation and without them nation cannot achieve their growth targets. Banks and financial institutions should able to achieve financial performance and for that suitable environment should be created. Governance and performance should be considered at same time because lacking in any one can lead to disaster situation for nation.

In most of countries, the central banks are the body that formulates the guidelines principles and directives for banks to follow governance. These central banks formulate guidelines, directives and principle with the help of multinational agencies such as OECD, Basel committee etc. In Nepal, it’s Nepal Rastra Bank, the central

bank that formulates the directives and guidelines for banks and supervises them. Nepal Rastra Bank has been actively working in maintaining the governance in banks and creating favorable conditions so that these banks can sustain in unfavorable conditions and high competition.

The current study shows that impact of corporate governance factors on the performance of bank is similar to other scholar's studies in their respective countries. The results in this research show that corporate governance factors can impact the performance of banks of all over the nation.

Central bank of Nepal can focus on decreasing the number of board members in board committee or increase the proportion of independent directors so as to maintain both corporate governance as well as bank performance. Similarly, it can also increase the minimum required percentage of capital adequacy ratio that banks needs to maintain as mandatory. The capital adequacy ratio didn't have much significance in performance of Nepalese bank but it's important to secure the shareholder interest. Nepal Rastra Bank has initiated to increase the capital adequacy ratio along with its determination to upgrade it to Basel III. By doing this central bank can maintain the governance as well as help banks to achieve financial performance. The analysis shows that increase in capital adequacy ratio leads to increase in return on equity.

The monetary policy 2015/16 of Nepal Rastra Bank has stated that minimum paid of capital for commercial banks is to make eight billion. This means that the banks need to increase their capital size. It is good for maintain governance since customers become more secure. However, research shows that the relation between bank size and performance is not strong. So increasing the paid of capital might not help banks to increase their performance.

Similarly, commercial banks can try to increase the earnings per share to its shareholder. With increase in earnings per share both the shareholders and banks can get benefitted. Shareholders can get extra money whereas banks can increase their performance. The analysis shows that with the increase in earnings per share banks return on equity and net interest margin increases.

Leverage showed negative effect on the performance of banks. The impact on of leverage is comparatively higher for return on equity. So banks can focus on minimizing the leverage ratio.

The importance of having a risk focus supervision of banks and financial institutions were accepted by financial regulators worldwide. The risk focused approach aims to supervise banks in accordance to their risk profile and thus focusing resources on areas of high risks that the financial institution faces. In regard to minimize the risk of banks and develop the governance, central bank of Nepal, has initiated risk- based analysis, special inspection of financial institution, financial sector assessment program, memorandum of understanding (MOU) with international authorities on supervisory Cooperation, transition to Nepal financial reporting system, implementation of supervisory information system, dimension of acceptance of low of country ,disclosure and transparency, consumer protection, effective competition, decentralization, protection of minority of interest, board of director oversight, internal control and business continuity plan in banks and financial institution. Nepal Rastra bank has full responsibility to maintain the governance and create a healthy environment for banks. However, NRB has not able to achieve its objective completely. Banking sector of Nepal is still prone to the risk of failure due to failure of NRB to properly supervise the activities directors.

a. Risk based supervision (RBS) NRB has been implementing RBS on 'A' class commercial banks and aims the full fledged implementation. NRB’s shift to risk focused supervision seeks to achieve an accurate assessment of individual banks' financial condition and managerial strength, on an on-going basis, in order to facilitate a prompt and timely response to emerging problems. This approach of supervision mainly assesses the inherent risks of the bank and their risk management process. It enables NRB to decide about the supervisory regime for the bank and to focus its supervisory resources on high risk areas. All the banks have been started to be inspected under risk based supervision approach.

b. Special inspection of financial institution as a part of Development Policy Credit initiated by the Government of Nepal, NRB has been conducting the special inspection of financial institutions with the expertise of KPMG, Portugal. The special inspection program is being carried out with joint support from the World Bank, IMF

and DFID and aims to have a comprehensive assessment of the Nepalese financial sector.

c. Financial sector assessment program following the Financial sector Assessment Program (FSAP) carried out jointly by the IMF and the World Bank, an action plan is being prepared for implementing the findings and recommendations of the FSAP. The FSAP has assessed different areas of the financial sector including banking, insurance, cooperatives and the capital market development in Nepal.

d. MOU with international authorities on supervisory c,ooperation Cross Border supervision of international banks and sharing of supervisory information among the financial regulators is very important given the level of financial integration worldwide. NRB has initiated the supervisory cooperation with other central banks and regulatory authorities for information sharing and supervisory cooperation.

e. Transition to NFRS Nepal Rastra Bank issued Nepal Financial Reporting Standard (NFRS) migration guideline to banks and financial institutions with an aim to migrate to NFRS. The special inspection of financial institutions being conducted by Nepal Rastra Bank also complements the transition to NFRS as the inspection also aims to identify gaps in the existing accounting standards and NFRS and the progress towards implementation of Nepal Financial Reporting Standards (NFRS).

f. Implementation of Supervisory Information System Nepal Rastra Bank has been working on implementation of supervisory information system in order to empower the offsite supervision function under the technical and financial assistance of the World Bank and DFID. The system is expected to be implemented.

g. Business Continuity Plan there was a need felt for having a policy in place in banks and financial institutions to have their own business continuity plans, since the lack of the same could have caused crisis in the banking industry, if the severity of the disaster was much higher. Thus, regulatory guidelines have already been issued to BFIs for the preparation of the same.

h. Development of Proactive Banking Industry banking industry in Nepal is still focused on compliance of regulatory minimum standards. They are emphasizing more on the compliance of the directives and circulars issued by Nepal Rastra Bank and confining their prudent practices to those things only, being just reactive to those norms. However, NRB expects them to adopt international best practices and take proactive measures for the prudent banking. NRB has been endeavoring to make them proactive by issuing different guidelines at different times. Additionally, many banks are operating with their short term plans, mostly annual budgets, though few of them have developed strategic plans.

i. Good Governance most of the problems that the Nepalese banking industry has seen so far are related to the governance aspect. Almost all the failure cases are related to the lack of good governance and ethical standards. Insider lending, related party lending and connectivity, unethical relations etc. have created most of the problems rather than credit risks and the business risks. Ever-greening of the risk assets has been another major challenge in the Nepalese banking industry. The major chunk of the total risk assets of the industry is of revolving nature. On the other hand, banks have the practice of lending some short term loans on ad-hoc basis as well as extending the maturity dates and renewing the facilities that ultimately help in meeting the debt service need of the borrower. Nepalese banking industry has no practice of clean-ups for the revolving loans due to which the problems such as: maturity mismatch and ever-greening are still prevalent in the industry. NRB has always motivated banks to have a professional board and expected the board to retain the oversight of the operations and risk management of the bank.

j. Systemically Important Banks NRB is yet to define the domestic systemically important banks (D-SIBs). Though consolidation is being encouraged by NRB, it is also important to have the knowledge on systematically important and "too big" banks. NRB has been working to prepare the framework for the identification and regulation of the D-SIBs to control the systemic vulnerability. The Central Bank of Nigeria (CBN) in July 2004 unveiled new banking guidelines designed to consolidate and restructure the industry through mergers and acquisition. This was to make Nigerian banks more competitive and be able to play in the global market.

k. Supervisory Information System (SIS) inexistence of the sound supervisory information system (SIS) has been a big problem for the supervisors. This is creating lag of data collection, analysis and corrective measures and ultimately hindering the efficiency on off-site supervision of NRB. Development of the automated data collection and analysis system has been a big challenge for the regulatory body. As DFID has allocated grant to develop the SIS, for which the need identification report has been submitted to the DFID by NRB. As per the said report software specification is to be prepared and hire from the software vendor. DFID has appointed PWC India as a consultant for the same. The action plan has been approved and correspondence has been made to publish the EOI as per action plan.

l. Shadow Banking increasing trend of shadow banking practices by some of the larger cooperatives around the urban areas has brought challenges to the financial system. This kind of activities conducted by the cooperatives could also increase risk in the system as their deposit mobilization is rapidly increasing. Lack of stringent regulatory and supervisory mechanism for various types of micro finance institutions established and operated under different acts is also the matter of concerns.

m. Coordination with other Regulators it is obvious that supervisory capacity can be further strengthened by proper coordination among different regulators and the concerned authorities such as Ministry of Finance (Government), Securities Board of Nepal (SEBON), Insurance Board, Credit Information Bureau (CIB), Debt Recovery Tribunal (DRT), Credit Rating Agencies and Asset Management Companies. With the growing complexity in the financial system, systemic risks are also increasing. Thus, it is important to have effective and efficient coordination between supervisors and regulators of the financial system. Ensuring effective coordination between banking supervisors and other regulators of the financial sectors.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

The independent variables board member size, independent directors in board members, earnings per share, capital adequacy ratio, bank size and leverage for the study were taken after the literature review of various scholars. These variables showed various relationships with the performance with the time period and the countries. In context of Nepal, board members size, independent directors, earnings per share has significant impact on the performance of banks. The bank size does not have significant impact on the performance of banks in Nepal. Therefore, in Nepal, it is important to focus on other board directors, independent directors and earnings per share for the better performance of banks. As results shown in the independent variables on return on equity show that beta coefficient for independent director, capital adequacy ratio, earnings per share and bank size is positive. It indicates that higher the independent director, higher will be the return on equity. This study result was similar as done by Fema & Jensen (1993). Similarly, higher the capital adequacy ratio higher will be the bank performance. The study is consistent with the Kosmideu (2008), A. Olalekon & S. Adeyinka (2013). Likewise, increase in bank size will increase the return on equity. The results are similar as done by Amel et al., (2004), vafeas (2015) and Feng & Serlitis (2010). Finally, with the increase in earnings per share, there will be increase in return on equity. The study is similar as with lamount (1998).

The beta coefficient of board member size and leverage is negative to the return to equity. This means that higher the number of board member in banks and leverage ratio, lower will be the return on equity for the banks. Lipton & Lorsch (1995), Jensen (1996) and Yermack (1998) also concluded that there is negative relationship between board member and bank performance.

It can been seen that in examining independent variables on dependent variable return on equity are acceptable and significant at a confidence level of 95%. Meanwhile, determine coefficient is equivalent to 0.715 that means 71.5% of the independent variables can be predict the dependent variable changes.

The independent variables on net interest margin show that beta coefficient for independent directors, earnings per share, bank size and Capital adequacy ratio is positive. The result shows that with the increase in independent directors, the net interest margin of banks will be higher. The study results are similar as of scholar Baysinger & Buttler (1985), Pfeffer (1972) and Byrd & Hickman (1992). Likewise, table also makes sure that with the increase in earnings per share will increase the net interest margin. The research results are similar as of Lamout (1998), Ammar Gull et al., (2013) and Mujahid et al., (2014). Likewise, higher the bank size in terms of capital and reserve makes higher net interest margin. The study results get similar with Vafeas (2015) and Wheelock & Wilson (2009) but get opposite of Clark (1996) and Goldberg & Rai (1996), which preferred medium size firms for better performance. Finally, the study of Kosmidou, Okafor et al., Olalekon & Adeyinka, stated that positive relationship among capital adequacy and performance is similar with the current study.

The beta coefficients of board member size and leverage are negative with the net interest margin. This means that higher the number of board member in banks and leverage, lower will be the net interest nargin for the banks. Lipton & Lorsch (1995), Jensen (1996) and Yermack (1998) also concluded that there is negative relationship between board member and bank performance. Likewise, with the increase in leverage, there will be decrease in net interest margin. The results are contrast with Gweiji & Karanja (2014) and Berger & Patti (2006) but similar with Tian & Zeitun (2007) and Maina & Kandongo (2013).

It can been seen that in examining independent variables on dependent variable net interest margin. The table shows that 8.9 % of the independent variable can predict the dependent variable. Board members in committee should be decreased so as to enhance the banking performance. Board members have their important role in making important decisions for the organization. Decisions such as payment of dividend, mergers and acquisition, new policy implementation, extension or contraction of business activities etc are made by board of directors. Likewise, independent directors in board members should be increased for better performance. The independent directors are responsible for guiding the banks towards good governance and achieve financial performance by serving in management as

individual providing unbiased and independent views to board and represent minority shareholder interest. In absence of independent directors, aggressive and profit oriented directors can make decision leading to high risk for normal shareholders and stakeholders. Banks should also focus on their earnings per share since with the increase in earnings per share, banks performance is also increased, represented by return on equity and net interest margin. Distributing profit to general shareholder assumes that organizations have operating well and taking care of shareholders. The analysis also showed that bank doesn't need to have higher capital and reserve in order to achieve the financial performance.

The study solved the question of whether banks performed well even when country was passing through a transitional phase with many obstacles to operate banks. The result shows that mean return on equity is 17.51 % and mean net interest margin is 12.73%. This suggests that bank performed well even when the country political, economical and technological sectors were not favorable.The research on corporate governance and financial performance in the context of Nepalese bank has made partial contribution for the central bank of Nepal, commercial banks and other financial institutions, upcoming researchers and other non financial institutions. The analysis of data using correlation and regression helped to find the relationship among dependent variables and independent variables.

The first hypothesis (H1) that deals with the significant negative relationship between board member size in committee and bank performance is accepted for return on equity. The result shows that when the number of board members increases in the board committee, the bank performance will decrease i.e. its net interest margin and return on equity will decrease. There is a significant relationship with return on equity but no significance with the net interest margin.The second hypothesis (H2) that deals with the significant positive relationship between independent directors in board of member's committee and bank performance is accepted for return on equity only. This means with the increase in independent directors in board committee can increase the return on equity. The study also shows there is positive relationship with the net interest margin but the relationship is not significant.The third hypothesis (H3) that deals with the significant negative relationship between leverage ratio and bank performance has been rejected for return on equity and net interest margin. The

relationship between the leverage and performance is negative however they are not significant.The fourth hypothesis (H4) that deals with the significant positive relationship between bank size and bank performance has been rejected due to no significance. However, there is positive relationship with both the variable.The firth hypothesis (H5) that deals with the significant positive relationship between capital adequacy ratio and bank performance has shown rejected. The regression table showed that the relationship is positive with the capital adequacy ratio but it was not significant.The sixth and final hypothesis (H6) that deals with the significant positive relationship between earnings per share and bank performance has been partially accepted. There is significant relationship with return on equity only. However, results show the relationship with positive for both of them. This means with the increase in earnings per share, the bank can improve their financial performance through increase in return on equity and net interest margin. This result can be helpful to above mentioned individuals and organizations.

5.2 Conclusion

Corporate governance has now become a global issue and global trend in most of the commercial industries of public concern the ever before. Corporate governance is of more significance in this century to address the concern of stakeholders on the ground of transparency, accountability and integrity. After the various corporate scandals having unethical business practices, corporate governance has gained the serious attentions across the world. Board size, Independent directors, Leverage, Bank size, Earning per share, Capital adequacy ratio are the major areas to govern the corporate governance. Corporate governance maximizes the value of the firm in long run by establishing a reliable corporate system in the organization. Corporate governance is of more importance to financial institutions in Nepal as there is huge competition in the industry. A sound corporate governance system is of vital concern to improve the financial performance of commercial banks in Nepal.

This study has been attempted to analyze corporate governance and financial performance of Nepalese commercial banks using descriptive and causal comparative research design for the study period 2014/15-2018/19. This study is aimed to examine the impact of corporate governance on financial performance of Nepalese commercial bank. In particular, this study measures the examine the dimensions that represents the

corporate governance and banking performance and the financial performance of the banks. relationship between corporate governance that is defined by board size, independent directors, leverage, bank size, earning per share, capital adequacy ratio and financial performance that is defined by return on equity and net interest margin.

The study is based on secondary data collected from the annual reports of 11 commercial banks of Nepal. Samples for this study were taken from 55 observations in the review period from 2014 to 2019.The revealed that the number of board member in banks has negative relationship with the performance of banks. Here, it has significant negative relationship with ROE only but not with NIM, which were considered as measure of bank performance in this research. The study revealed that the negative relationship with ROE is strong and significant at the .05 level. It indicated that with the decrease in members in board committee will enhance the performance of the bank.

The independent directors have positive relationship with indicators of bank performance i.e. ROE and NIM. However, there is weak positive relationship. This result shows that to have better performance the number of independent director should be made maximum. Capital adequacy ratio has positive relationship with the return on equity and net interest margin. The positive relationship with ROE is significant but with the net interest margin there is no significant relationship. The earnings per share are positively related with return on equity and net interest margin. It means that with the increase in EPS there will also be increase in performance of bank i.e. the ROE and NIM of bank will raise. Commercial banks can try to increasing the earning per share both the shareholders and banks can get benefitted which indicate that with the large capital and reserve the bank financial performance will be high. The leverage has negative relationship with the return on equity and net interest margin, the bank performance measure. This indicates that with the increase in leverage, the bank performance will be low. So banks can focus on minimizing the leverage ratio. Therefore, Nepalese commercial bank can improve ROE and NIM by decreasing the board member, leverage and increasing the independent directors, capital adequacy ratio, earning per share, bank size.

The research can be used by central bank of Nepal, Nepal Rastra Bank to formulate guidelines for banks. NRB formulates guidelines in such a way that it can properly

govern the banks as well help banks to attain financial performance. The obtained results show the various relationships between governance and bank performance. Taking it as guidelines by NRB, it helps to make better combination between governance and performance. This research can also be helpful for banks and other financial institutions. Since this research has studied the impact of governance factors on performance, banks can make necessary changes in their system so as to achieve performance. The banks having large board size can reduce the number of directors and add independent director in order to achieve the performance. Likewise, the study can also be fruitful for non-financial institution because some factors discussed here can be used in those institutions. The impact of size, directors can be taken for experiment in those institutions with confidence. The research was also helpful in solving the queries that are often linked between governance and performance. This research concluded with the basic answers such as which governance factors were more influential in determining the bank performance and what kind of relation exists between them. This research also found that banks operated well even when nation external environment was not favorable for business.

5.3 Implications

Empirical findings reveal that as a means to strengthen the performance of commercial banks in Nepal should be concerned about the level of corporate governance and performance of banks. The findings also suggest that shareholders should actively take part in establishing good corporate governance in the banks they own in order to earn better and sustainable profits. The NRB should encourage banks to implement good corporate governance practices through enacting rules and regulations. Keeping the number of director in a bank board to a minimum size is recommended, so long as that minimum size enables the board to perform its supervision activities properly. Commercial banks should increase their branches as well as their size in order to improve profitability due to economies of scale. The government, and financial institutions as well as the business community should work towards the establishment of a formal capital market institutions especially stock exchange which enhances corporate governance, and competition among businesses in the country.

Financial regulators are scrambling to access the change and master the turbulence created by globalization and technology. And for it, regulators need to develop sound banking system with good governance system. The study of corporate governance and financial performance is important in a sense that it covers both governance and performance. Banks are the backbone of the country's economy. Without banks and other financial institutions, nation cannot achieve their economic growth. However, these banking and financial institutions should be nicely governed so that the crisis of USA in 2008 does not happens again. Poor governance in banking sector could lead whole economy in risk. So it's important to know the factors of corporate governance. Likewise, banking sector also needs to have good financial performance so that they can operate in smooth way. Suitable environment should be created so that banks can sustain and expand themselves.

The study of corporate governance and performance is important and hence should be repeatedly done in certain time periods. When research in future is done, it is recommended that more sample size to be taken with longer period time. Similarly, the research can be done to compare the relationship between corporate governance and performance between commercial banks, development banks, finance companies and non-financial companies. It is also important to know how the central bank of Nepal has been supervising the banks and whether the policies and directives used by NRB are comparable to the Central Bank of other countries. This can also be a valuable research for banks of Nepal. Likewise, this research can be helpful for upcoming researchers as base study and can further continue research or compare the relationship between now and of future.

REFERENCE

Adams, R., & Mehran, H. (2008). Corporate governance, board structure and it's determinants in the banking industry. *Journal of Banking and Finance,* 32, (pp. 1098-1109).

Adhikari, D. R. (2009). Corporate governance and firm performance. *Management Review.*

Agarwal, A., & Knoeber, C. R. (1996). Firm performance and mechanism to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis,* 31,377-389.

Ajanthan, A., Balasundaram, N., & Balaputhiran, S. (2013). Corporate governance and banking performance: a comparative study between the private and state banking sector in Srilanka. *European Journal of Business and Management,* www.iiste.org.

Akintoye, I. R., & Somoye, R.O.C (2008). Corporate governance and merger activity in the Nigerian Banking industry: Some clarifying comments. *Internal Research Journal of Finance and Economics,*19.

Allen, L. & Rai, A. (1999). Operational efficiency in Banking: An International comparison. *Journal of Banking and Finance*, 20, 655-672.

Amarneh, A. L, (2014). Corporate governance, ownership structure & bank performance in Jordan. URL: http://dx.doi.org/10.5539/ijef.v6n6p192

Amel, D., Barnes, C., Panetta, F., & Salleo, C. (2004). Consolidation and efficiency in the financial sector: A review of international evidence. *Journal of Banking a nd Finance,* 28, 2493-2519.

Arun, T. G., & Turner, J. D. (2004). Corporate governance of banks in developing economies: Concepts and issues. *Corporate Governance,* 12, 372-377.

Balaputhiran, S. (2016). Firm performance and earnings per share: A case study of listed banks in Srilanka. *Merit Research Journal of Accounting, Auditing, Economics and Finance,* 2, 8-11.

Barnhart, S. W., & Rosenstein, S. (1998). Board composition, managerial ownership and firm performance: An empirical analysis. *The Financial Review,*33, (1-16).

Baysinger, B., & Buttler, H. (1985). Corporate Governance and the Board of Directors: Performance Effects of Changes in Board Composition. *Journal of Law, Economics, and Organizations,*1, (2), 101- 24.

Becht, M.(2007). Corporate law and governance. *Handbook of Law and Economic-2.*

Bennedsen, M., Kongsted, H.C., & Neilsen, K.M. (2013). The Causal Effect of Board Size in the Performance of Small and Medium-Sized Banks. *Journal of Banking and Finance,* 32, (pp. 1098-1109).

Berger, A.N., & Patti, B.D. (2006). Capital Structure and Firm Performance: A New Approach to Testing Pecking Order Theory and An Application to Banking Industry. *Journal of Banking and Finance,*30, (4),1065- 1102.

Bernake, S. B. (2003). Nonmonetary effects of the financial crisis in the propagation of great depression. *American Economic Association,* Vol-73, pp. 257-276.

Bhagat, S., & Black. B. (1999). The Uncertain Relationship Between Board Composition and Firm Performance. *Business Lawyer,54,* (pp. 921-963).

Bhattrai, H. (2017). Zenith international journal of multidisciplinary research. *Journal of International Accounting, Auditing,* (pp. 97-110)

Boone, A. L., Field, L.C., Karpoff, J. M., & Raheja, C. G. (2009). The determinants of corporate board size and composition: An empirical analysis. *Journal of Financial Economics,*85, 66-101.

Byrd, J., & K. Hickman (1992). Do Outside Directors Monitor Managers? Evidence from Tender Offer Bids. *Journal of Financial Economics,* 32, (195-207).

Cabraal, A.N., (2014). Importance of corporate governance for the banking and financial sector, working paper, South Asia management forum, 24-24.

Caprio, G., & Levine, R. (2002). *Corporate governance in finance: Concepts and international observation.* Paper presented in the World Bank, IMF, and Brookings institution conference.

Chau, G., Gray, S.J. (2010). Family ownership, board independence, and voluntary disclosure: Evidence from Hong Kong. *Journal of International Accounting, Auditing, and Taxation,* 19(2), 93-109.

Claessens, S., & Yurtoglu, B. (2012). Corporate governance in emerging markets*: A SurveyEmerging Market Revives, 15, (pp. 1-33).*

Clark, J., 1996. Economic cost, scale efficiency and competitive viability in banking. *Journal of Money, Credit and Banking,28,* 342-364.

Ebaid, E.I. (2009). The Impact of Capital Structure Choice on Firm Performance: Empirical Evidence from Egypt. *The Journal of Risk Finance, 10,* 477- 487.

Fama, E., & Jensen. M (1993). Separation of ownership and control. *Journal of Law and Economics,*26(2), 301-325.

Fanta, B.A. (2019). Corporate governance and impact on bank performance. *Journal of Finance and Accounting.* (pp. 19-26)

Feng, G., & Sertilis, A. (2010). Efficiency, technical change and return to scale in large US banks: Panel data evidence from an output distance function satisfying theoretical regularity. *Journal of Banking and Finance*, 34, 127-138. Financial frauds-Mitigating risks. Nepal Economic Forum, July 2013. Link available at http://www. nepaleconomicforum.org/ uploads/publications/file/ NEFsearch6_Financial%20Fraud_20150209114632.pdf.

Francis, R. D (2012). *Ethics and corporate governance:* An Australian Handbook. Paper presented at the University of New South Wales, Sydney.

George, E. H., & Dimitrios, S. S. (2004). Efficiency measurement of the Greek commercial banks with the use of financial ratios: A data envelope analysis approach. *Management Accounting Research*,15, pp. 201-224.

Ghimire, S. (2010). Is corporate governance priced in the stock market? A piece of evidence from Nepalese listed firms.

Goddard, J., Molyneux, P., and Wilson, J.O.C. (2004). The profitability of European banks: A cross-sectional and dynamic panel analysis. *The Manchester School,*72,363–381.

Goldberg, L.G., & Rai .A, (1996). The structure-performance relationship for European banking. *Journal of Banking and Finance,*20, (2),745-771.

Grossman, S. J (2005). An analysis of the principal-agent problem. *Econometric,51* (8),47-65.

Gull, A. (2013). Impact of capital structure on banking structure: A case study of Pakistan. *Interdisciplinary Journal of Contemporary Research Business*,4(10), 393-403.

Gweji, M.O., & Karanja, J. (2014). Effect of Financial Leverage on Financial Performance of Deposit Taking Savings and Credit Co-operative in Kenya. *International Journal of Academic Research in Accounting, Finance and Management Sciences,* 4, 180- 188.

Hambrick, D. C., Werder, A.V., & Zajac, E. J. (2008). The new direction in corporate governance research. Organization Science,(381-385).

Hawley, J. P. & Williams, A. T. (1998). Corporate governance in the United States: The rise of fiduciary capitalism. Paper Presented in the School of Economics and Business Administration, California.

Hermalin, B., & Weisbach, M. (2001). Board of directors as an endogenously determined institution: A survey of economic literature. *Federal Reserve Bank of New York Policy Review,9* (7),7-26.

Jensen, M. (1996). Agency costs of free cash flows, corporate finance, and takeovers. *American Economics Review, 72, 323-329.*

Jensen, M., & Meckling, W. (2001). Theory of the firm: Managerial behavior, agency cost, and ownership structure. *Journal of Financial Economics, 3*(2), 305-360.

Kafle, D. R. (2004). Corporate governance. *Journal of SEBO.*

Karray, S.C., & Chichti, J.E. (2013). Bank size and efficiency in developing countries: intermediation approach versus value-added approach and impact of nontraditional activities. *Asian Economic & Financial Review.*

Kandranc, J. (2014). Bank failure, relationship lending, and local economic performance. *Finance and Economics Discussion Series Division or Research and Statistics and Monetary Affairs Federal Reserve Board, Washington.*

Kasif, R (2008). A comparison of corporate governance and firm performance in developing countries (Malaysia) and developed (Australia) financial market. (Victoria University, Australia).

Katrodia, A. (2012). Corporate governance practices in the banking sector. *Journal of Research in Commerce and Management,*1(1) 37-44).

Kern, A. (2004). Corporate governance and banking regulation. Cambridge Endowment for research in finance, (University of Cambridge).

Khatiwada, Y. R. (2002). Financial sector reform and corporate governance in Nepal. *Byavasthapan Sournor.*

Khatiwada, Y. R. (2015). Involvement of staff, director's key challenge. The Kathmandu Post, 2015 March 11.

Kiel, G.C., & Nicholson, G.J. (2005). Board composition and corp.orate performance: How the Australian Experience Informs Contrasting Theories of Corporate Governance. http://eprints.qut.edu.au/5019/1/5019.pdf.

Kosmidou, K. (2008). The determinants of banks' profits in Greece during the period of EU financial integration. *Managerial Finance,* vol-34, 146-159.

Lamont, O. (1998). Earnings and expected returns. *The Journal of the American Finance Association,* 53(9), 1563-1587.

Laurent, W. (2002). Leverage and corporate performance: A frontier Efficiency Analysis. A paper presented at the University of Robert Schuman Institute' Etudes, (France).

Lipunga, A.M., (2014). Corporate governance practices in the commercial bank's sector of Malawi: Evidence from the Annual Reports. http://www.scienpress.com/Upload/JAFB/Vol%204_5_9.pdf.

Lipton, M., & Lorsch, J. (1995). A modest proposal for improved corporate governance. *Business Lawyer,* 88 (16), 59-77).

Maina, L., & Kondogo, O. (2013). Capital structure and financial performance in Kenya: Evidence from firms listed at the Nairobi securities exchange. Paper presented at the Jomo Kenyatta University of Science and Technology Research Conference,(Kenya).

Majundar, S. K., Chinner, P. (2003). Capital structure and performance in Kenya: Evidence from a Transition Economy on an Aspect of Corporate Governance, 98(4), 287-305.

Malherbe, S., & Segal, N. (2001). Corporate governance in South Africa. Paper presented in the OECD Development Centre,(Paris).

Mareinkowska, M. (2017). Corporate governance in banks: Problems and remedies. *Financial Assets and Investing,* 2(3),47-67.

Maria, P. E. (2010). Corporate Governance and Bank performance. Link available at www.ihu.edu.gr/gateway/files/document/dissertations/Papanikolaou-Patsi.pdf

Mariana, S. (2016). Ownership concentration, market monitoring, and performance: evidence from the UK, the Czech Republic, and Poland. *Journal of Applied Economics,* 9(1), 91-104.

Maskey, E. (2004). Determinants of Corporate Ownership and Board Composition. *Finance and Economics,* pp 163-184.

Monks, R. & Minow, N. (Ed.) (2011). Corporate governance. Blackwell Publishers, (Oxford).

Mujahid, M. (2014). Impact of capital structure on banking performance. *Research Journal of Finance and Accounting*, 5(19), 99-104.

Mulili, M. B. (2011). Corporate governance practices in developing countries: The case for Kenya. *International Journal of Business Administration,* 2(1), 14-27.

Mwanga, L. W., Makau, M. S., & Kosimbei, G. (2014). Relationship between capital structure and performance of non-financial listed in Nairobi security exchange. *Global Journal of Contemporary Research in Accounting, Auditing, and Ethics,*1, 72-90.

Myers, S. C. (2001). Capital Structure. *Journal of Economic Perspectives*, 15, (pp. 81-102). Link available at https://www.jstor.org/stable/2696593

Ngo, P. (2006). Endogenous capital and profitability in banking. Paper presented at Australian National University, College of business and economics, (Australia).

Nickbell, S., & Nicolititsas (1999). How does financial pressure affect firms? *European Economic Review,*43(2), 1435-1456.

Niraula, M. (2015). Corporate governance in banks, financial institutions: An article (n.p)

Olalekan, A., & Adeyinka, S. (2013). Capital Adequacy and Banks Profitability: An empirical Evidence from Nigeria. *American International Journal of Contemporary Research,* vol-3

Pfeffer, J (1972); Size, Composition, and Function of Hospital Boards of Directors, *Administrative Science Quarterly,* 18, (2) 349-364.

Pokhrel, R. P. (2007). Corporate Governance in Nepal. *Socio- Economic Development Panorama,* 1, (2) 39-53.

Poudel, R ., Hovey, M. (2013). Corporate governance and efficient in Nepalese commercial banks. *International Review of a Business Research Paper,* 9,(4)53-64.

Pradhan, R.S., & Adhikari, S.N (2011). Corporate governance and firm performance in Nepal. *Management review,* 1, (1) 22-26.

Rawal, T., (2003). Corporate governance and financial sector reforms in Nepal. Society for International Development, Nepal Charter.

Sapakota, M. (2016). The corporate governance in Nepalese financial institutions in the context of financial sector reform.(TU, Kathmandu Nepal).

Sansusi, L. S. (2010). The Nigerian banking industry. What went wrong and the way forward. Paper presented at the seminar of Bayero University, Kano, (Nigeria).

Shrestha, M. K. (2011). A focus on a growing financial intermediary in the Nepalese capital market. *The Nepalese Management Review,* l9, (1-15).

Subbarao, D. (2011). Global Banking: a Paradigm shift. Paper presented at the seminar of the federation of Indian chambers of commerce and industry, (Mumbai, India).

Thapa, R. (2014). Corporate Governance: Need and Significance in Nepalese Banking System. *Challenges of Governance in South Asia.*

Tian, G.G., & Zeitun, R. (2007). Capital structure and Corporate performance. *Australasian Accounting Business and Performance Journal,* 1(1) 40-60.

Vafeas, N. (2015). Board meeting frequency and firm performance. *Journal of Financial Economics,* 53 (1), 113-142.

Wheelen, T. L., & Hunger, J. (2006). Strategic management and business policy, United States of America. Pearson prentice hall.

Wheelock, D.C., & Wilson, P. W. (2009). Technical progress, inefficiency and productivity change in U.S. Banking: 1984-1993. *Journal of Money, Credit and Banking* 31 (2),212-234.

Yermack, D. (1998): Higher Market Valuation of Companies with a Small Board of Directors, *Journal of Financial Economics,* 40, (4), 185–211.

Yonca, E., Fabrizio, F., Stephen, R.S. (2010). Board director’s responsiveness to shareholders: Evidence from shareholder's proposal. *Journal of Corporate Finance,* 16(5), 53-72.

APPENDICES

1. Nabil bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	5	7	7	11	11
Ind.directors	1	1	1	3	3
Bank size	3656602080	4754950000	6183540000	8041159000	8043221000
ROE%	27.97	22.73	25.61	22.41	20.94
EPS%	83.68	57.24	59.27	59.86	49.51
CAR%	11.24	11.57	11.73	12.42	13.00
Leverage%	9.74	10.18	10.51	11.21	11.81
NIM%	10.16	8.50	8.08	9.44	11.36

Source: annual report of Nabil bank

2. NMB bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	7	9	9	11	11
Ind.directors	1	2	2	3	3
Bank size	2000000000	2732365000	4486924066	8760329100	8830229700
ROE%	14.86	33.82	20.52	13.65	11.24
EPS%	20.5	25.05	27.78	26.88	28.73
CAR%	10.75	11.13	10.98	13.61	15.75
Leverage%	9.91	8.84	9.34	12.39	11.27
NIM%	9.10	7.86	7.16	9.26	10.78

Source: annual report of NMB bank

3. Everest bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	8	8	8	8	9
Ind.directors	0	0	0	0	1
Bank size	1801200000	2017300000	5741095399	8016863347	8716863347
ROE%	28.4	22.8	18.37	18.05	16.00
EPS%	86.04	78.04	40.33	32.48	32.78
CAR%	11.31	13.33	12.66	14.69	14.20
Leverage%	9.35	10.44	10.34	12.72	12.65
NIM%	10.11	8.76	6.86	8.13	9.94

Source: annual report of Everest bank

4. Nepal SBI bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	7	8	8	9	11
Ind.directors	0	0	0	1	1
Bank size	3058059500	3883735565	6924892999	8046905260	8632871200
ROE%	22.85	21.51	22.16	14.84	15.81
EPS%	34.83	34.84	36.78	33.46	25.16
CAR%	13.28	14.03	13.49	15.71	15.15
Leverage%	10.19	11.18	10.98	13.53	13.38
NIM%	9.55	9.65	8.53	9.51	11.94

Source: annual report of Nepal SBI bank

5. Himalayan bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	8	8	9	9	9
Ind.directors	0	0	0	1	1
Bank size	4499145000	5848888500	6491623500	8114529375	8346021788
ROE%	16.85	17.06	24.53	21.58	20.17
EPS%	33.1	33.37	43.06	35.15	23.11
CAR%	11.29	11.14	11.84	12.15	12.46
Leverage%	9.03	9.48	9.43	10.93	11.1
NIM%	10.21	8.35	7.26	9.51	11.64

Source: annual report of Himalatan bank

6. Sunrise bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	8	9	8	8	11
Ind.directors	0	0	0	0	1
Bank size	2443688000	3976046341	7018104701	8152560000	8291865000
ROE%	9.15	14.04	15.48	12.42	11.68
EPS%	11.03	19.27	23.94	16.76	18.13
CAR%	11.49	11.11	12.05	14.47	13.38
Leverage%	10.63	10.11	11.13	13.39	12.58
NIM%	8.77	7.08	10.26	12.55	12.26

Source: annual report of Sunrise bank

7. Nepal investnment bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	7	8	9	9	9
Ind.directors	0	1	1	1	1
Bank size	4769000000	6346000000	8707000000	9240378865	1064559900
ROE%	27.60	24.80	26.00	19.10	18.71
EPS%	40.67	30.92	29.30	29.31	35.66
CAR%	11.27	11.90	14.92	13.02	12.66
Leverage%	9.52	9.54	13.05	11.58	11.46
NIM%	10.8	9.00	8.40	9.10	11.00

Source: annual report of Nepal investnment bank

8. Siddarth bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	9	9	7	7	7
Ind.directors	1	1	0	0	1
Bank size	2031180032	3022077338	5250859342	8464385272	8746523042
ROE%	23.41	20.74	20.35	15.06	14.22
EPS%	38.36	37.77	41.63	26.60	26.45
CAR%	11.39	11.10	11.25	12.74	12.12
Leverage%	8.39	7.58	8.85	11.02	10.99
NIM%	10.40	8.49	6.89	10.86	11.14

Source: annual report of Siddarth bank

9. Laxmi bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	8	7	6	6	7
Ind.directors	1	0	0	1	1
Bank size	2893183190	4799889946	8219653200	8221667000	8554762100
ROE%	15.1	10.33	11.17	9.20	10.93
EPS%	26.07	19.42	27.15	21.77	17.37
CAR%	11.91	10.81	11.15	13.58	12.43
Leverage%	9.62	9.17	9.79	12.43	11.43
NIM%	9.34	7.83	7.16	8.98	10.95

Source: annual report of Laxmi bank

10. Nepal bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	8	8	7	7	7
Ind.directors	0	0	1	1	1
Bank size	6465001800	6465001800	8042662200	8042782300	8051642800
ROE%	18.71	17.27	25.17	13.51	14.00
EPS%	18.08	7.48	44.59	38.77	39.98
CAR%	4.55	7.50	10.2	14.47	11.27
Leverage%	3.92	6.32	9.01	13.32	10.29
NIM%	12.16	9.59	9.86	9.73	12.22

Source: annual report of Nepal bank

11. Rastriya banijya bank

Years	2014/15	2015/16	2016/17	2017/18	2018/19
Board size	9	9	9	7	7
Ind.directors	1	1	1	0	0
Bank size	6873502400	8588972000	8588972000	9004795700	9004795700
ROE%	18.71	17.27	25.17	13.51	19.25
EPS%	34.25	27.48	36.29	42.75	54.51
CAR%	10.16	10.46	10.39	11.47	13.39
Leverage%	9.11	9.37	10.28	10.48	12.65
NIM%	10.21	9.73	8.42	6.36	9.22

Source: annual report of Rastrya banijya bank