**CHAPTER-I**

**INTTRODUCTION**

**1.1 Background of the study**

Governance simply refers to the process or act of governing. When it comes to an organized corporate sector, it is the way by which an organization is directed or controlled. The relative effectiveness of corporate governance has a profound effect on how well a business performs. governance is systems to ensure that organization’s obligations to its major stakeholders- customers, employees, creditors, suppliers and distributors, the community, and owners- are met with integrity and in compliance with applicable laws and regulations.

Corporate governance has recently received much attention due to Enron, Adelphia, WorldCom, and other high profile scandals. These scandals are considered as alarm of a poor corporate governance standard. Corporate governance is considered to be one of the most critical factors influencing firm performance in banking sector. If better corporate governance is related to better firm performance, better-governed firms should perform better than worse- governed firms (Rehman & Hussain, 2013). It is particularly important as banks play specific role in the economic system through the way it facilitates capital allocation and help minimize risk for business (Dao & Huong Giang, 2012).

Corporate governance is also viewed as the conflict created by the misalignment of incentives between owners and managers is at the heart of how economists think about the firm and the corporate governance structure of the firm should be designed to minimize the costs created by that conflict (Barle and Means, 1932 and Jensen and Meckling, 1976). Yet, a critical element of corporate governance in modern corporations is provisions that protect managers from the external discipline of and statutes that insulate them from the monitoring and control of shareholders (Bebchuk et al. 2004).

Furthermore, Hart (1995)stated that corporate governance issues arise in an organization whenever two conditions are present. First there is agency problem and second, costs are such that this agency problem cannot be dealt with through contract.Barle and Means (1932)explained agency problem as conflict of interest and information asymmetries between shareholders and managers, which leads shareholders to bear high agency costs. The study further reflect that on the particular organizational form of firms’ management, the issue of governance is attached in agency theory where it highlights the existence of conflicts arising from maximizing each player’s own utility at the expense of the other.

The banking sector plays a crucial financial intermediary role in any economy. The 1997- 1998 economic crises in the Asian countries highlighted the importance of corporate governance. The corporate governance of banks is more important than other industries (Kallamu, 2013).Poor corporate governance of the banks can drive the market to lose confidence in the ability of a bank then it leads to economic crisis in a country and invite systemic risk (Adhikari, 2014). In contrast, good corporate governance strengthens property rights; minimize transaction cost and the cost of capital, and leads to capital market development (Sharma Poudel & Hovey, 2013).

Corporate governance is nothing but a system by which companies are directed and controlled (Pandya H. P., 2013). Corporate governance is a set of process an entity’s culture, policies, laws and institutional value that affect way a corporation is directed, administered or controlled. It is a combination of corporate policies and best practices adopted by corporate bodies in achieving its objectives in relation to their stakeholders (Mulili & Wong, 2011). It 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. It addresses the principal/agency problem through a mix of company law, stock exchange rules and sub regulatory codes. It arises from high profile corporate scandals, globalization and increased investors activism.

The fundamental objective of corporate governance reforms is to enhance transparency and transparency enhances accountability. It is widely recognized that transparency enhances trust among the major players within the governance framework. Companies have long recognized that good governance generates positive returns to a firm and boost confidence. Thus, the nature of corporate governance structures of a firm has critical impact on the responsive ability of a firm to external factors that impinge on its performance (Coleman & Biekpe, 1986).

Directors and managers require different sets of skills and managers do not necessarily make good directors. Prevention of corporate failure was not the only reason that led to adoption of the corporate governance ideals. On a positive note, there was a growing acknowledgement that improved corporate governance was crucial for the growth and development of the whole economy of a country. Other studies established strong links between the performance of corporations and the governance practices of their boards (Nwaiwu & Nkem, 2014).

 In recent years, the debate has specifically focused upon the functioning of board of directors, an important corporate internal control mechanism (AROSA, Itturalde, & Maseda, 2012). The role of boards as a mechanism for corporate governance of banks takes on special relevance in a framework of limited competition, intense regulation, and higher informational asymmetries due to the complexity of the banking business. Bank board composition and size are related to directors’ ability to monitor and advise management, and that larger and not excessively independent boards might prove more efficient in monitoring and advising functions, and create more value (Andres & Vallelado, 2008). For the last few years, the corporate governance has been a matter of growing academic interest in the policy studies. Given the infant stage of securities market development and gradual transformation of the external sources of corporate finance from bank to market, Nepal is passing through a transitional phase of institutional and governance reform. The high concentration of corporate ownership structure and dominance of family business groups in corporate affairs have become major constraints in exercising good corporate governance. Nevertheless, a number of governance reforms are underway and some positive symptoms have been observed in the banks and financial institutions (Kirkpatrick, 2009).

**1.2 Statement of the Problem**

Commercial banks play crucial intermediary role that create public trust and confidence among the participant in banking system. This sector being considered a highly trusted sector, any lacking in the system or failure in the governance would attract adverse effect in public trust and economic environment of the country.

Nepal has been struggling to maintain macroeconomic for couple of years now. Low growth rate, high unemployment, balance of payment deficit, ballooning trade deficit, high and sticky inflation are some of the pressing existing macroeconomic challenges. Now add to that list banking and liquidity crisis- engendered largely by the bank and financial institutions(BFIs) themselves and to some extent by Nepal Rastra Bank, the central bank- and its disastrous consequences in and beyond the banking system.

The NRB ignored the unhealthy competition, questionable lending to few sectors, and governance in financial sector. In doing so it let new BFIs pop up without even evaluating if economy needs so many of them, and took damage control measures of late. Meanwhile, the BFIs engaged in unhealthy and imprudent lending out of desperation to survive amidst cutthroat competition, which is getting nasty by the day. The BFIs inability to effectively cope with the pressure to increase deposit and lending, and to attain unsustainable profit targets is lending to a situation where all profits are private but losses are social.

Commercial banks are operated as a trustee and are responsible day to day operations with high degree of integrity and professionalism. Nepal being a developing country has its own problems and prospects of banking and financial institutions.

The commercial banks are growing in numbers in which pressurized the central bank to effective supervision for the protection of rights and interest of depositors, creditors, shareholders and other stakeholders. Most of the failures of the commercial banks has resulted from misappropriation of funds, lack of transparency and disclosure that unfavorably affect the public confidence in the reliability of performance of commercial banks. This study here tried to add more the following research questions:

1. What is the present scenario of corporate governance application in Nepalese commercial banks?
2. What are the major problems of corporate governance in Nepalese commercial banks?
3. What is the impact of corporate governance on Return on Equity (ROE) and Return on assets (ROA)?

**1.3 Purpose of the Study**

The main objective of the study is to examine the impact of corporate governance on the performance of Nepalese commercial banks. Specifically, this study has proposed the following objectives:

1. To analyze the present scenario of corporate governance application in Nepalese commercial banks.
2. To identify the major problems of corporate governance in Nepalese commercial banks.
3. To examine the impact of corporate governance on Return on Equity (ROE) and Return on Assets (ROA).

**1.4 Significance of the Study**

Corporate Governance is bright side of a coin to be understood and exercised appropriately in line light of legal boundaries, ethical norms and values to its optimum level for the benefits of the organizations followed by its shareholders and stakeholders as well. Till 1984, financial sector was closed to private sector and foreign investors. Then His Majesty of government of Nepal started to liberalize the financial sectors in the first half of 1990s. Private sector invested huge amount into the financial sector especially after restoration of democracy in 1990. Most of the commercial banks came into during the decade of 1990s.

Corporate governance is the contemporary subject, science the corporate scandals do not seem to end. The scandals may have led to lack trust in today’s corporation therefore it is important to study that how the executive officers and senior manager perceive corporate governance for companies financial performance. And how governance practices affects the accounting performance of companies.

The banking and financial institutions (BFIs) in Nepal have been establishing and developing rigid corporate governance rules and regulation to the company’s board members, executive officers, senior managers and other employees by themselves whereas some other are unwelcoming to accept the mandatory regulation provided by the regulatory bodies. Regulatory bodies are preparing harder rules to enhance the corporate governance rules and regulations for the banks and financial institutions that meet the international standards. This rule primarily focuses on corporate governance practice and its impact on determining the financial performance of commercial banks in Nepal. As the Nepalese financial scandals in such organizations is increasing day by day. This situation in Nepalese commercial banks has been the emerging issues at present and such issues considered to have the large impact on the performance of the banks. So, in order to examine the quality of corporate governance practices in commercial banks in Nepal and its impact on the performance on ROE and ROA, this study has been carried out. This study also analyzes the views of executive officers and senior executives who are on fort line, when dealing with these issues, regarding corporate governance practices and financial performance of Nepalese commercial banks.

As the knowledge regarding corporate governance appears to be limited in Nepal, studies that that can contribute to filling the gaps on knowledge regarding this in the country is highly required to be undertaken. The motivation for this study is to examine whether the corporate governance principles that researcher have found to be significant in explaining the corporate performance of the companies in the developed countries really apply in the young banking and financial institutions of the developing country like Nepal or not as well as analyze the perceptions of the frontline, personal dealing with the governance issues regarding corporate governance and financial performance of Nepalese commercial banks.

**1.5 Limitations of the Study**

Each and every work has its own sort of limitations involved in the process of performing the task. Same way this research also has some limitations which could not be ignored.

Corporate governance concerns a broad area as a topic but this research is confined only around the financial sector. So, finding of this research may not be generalized to all sectors.

1. The research is based up on the individual opinion of respondent regarding the problem.
2. Science, some collected information from primary data are individual opinion, bias may be unavoidable some times.
3. Although sample size is large enough, yet, some sort of statistical sample errors may not be ignored. e.g. sample may not represent the population perfectly which causes problem and generalization of the result or outcome.
4. Out of the several aspect of corporate governance performance only accounting performance ROE and ROA is taken for the study.

**1.6 Chapter Plan**

The study has been organized into five chapters, each devoted to some aspects of the study of issues and practices of CG in listed financial institutions in Nepal. The chapter one to five consists of introduction, review of literature, research methodology, presentation and analysis of data and summary, conclusion and recommendations respectively. Rationale behind this kind of organization is to follow a simple research methodology approach.

Chapter - I: It deals with the introductory part of the study. As described above this chapter mentions the major issues to be investigated along with the general background and objectives of the study.

Chapter - II: It includes a discussion of the conceptual framework and review of major empirical works. The conceptual frame work, analysis and review of related literature incorporated in this chapter provide a strong framework for next chapters.

Chapter -III: It contains the research methodology employed in this study. This chapter deals with research design, nature and source of data, selection of enterprises and method of analysis.

Chapter - IV: It consists of presentation and analysis of primary data to indicate quantitative and qualitative fact on issues and practices of CG of financial institutions.

Chapter -V: It indicates summary, conclusions and recommendations of the study. This chapter presents the major findings in comparison them with theory and other empirical evidence to some extent possible. It also offers recommendations and several directions for future research. Bibliography and appendix have also been incorporated at the end of the study.

**CHAPTER – II**

**LITERATURE REVIEW**

This chapter primarily deals with study of various work, research papers, journals, articles that has been done or that is undertaken regarding the impact of corporate governance on the performance of Nepalese commercial banks. It is the advancement of existing work of various researchers and academicians; and thus is the in-depth study of the subject matter. It starts with search of various works that is performed which is related to the topic and which add certain knowledge to the existing one. In an effort to gather information some of the master’s degree dissertation related to the topic also been reviewed. In addition to independent studies carried out by well-known experts and others are also taken into consideration. The literature review is basically divided into two topics:

* Theoretical Review
* Review of Related Articles

**2.1 Theoretical review**

There are many theories have been developed in the world related to corporate governance and financial performance. Mainly agency theory, stakeholder theory and resource dependency have been reviewed in this chapter.

**2.1.1 Agency theory**

It is an acknowledged fact that the principal-agent theory is generally considered the starting point for any debate on the issue of corporate governance emanating from the classical thesis on The Modern Corporation and Private Property by Berle and Means (1932). According to this thesis, the fundamental agency problem in modern firms is primarily due to the separation between finance and management. Modern firms are seen to suffer from separation of ownership and control and therefore are run by professional managers (agents) who cannot be held accountable by dispersed shareholders. In this regard, the fundamental question is how to ensure that managers follow the interests of shareholders in order to reduce cost associated with principal-agent theory? The principals are confronted with two main problems. Apart from facing an adverse selection problem in that they are faced with selecting the most capable managers, they are also confronted with a moral hazard problem: they must give agents (managers) the right incentives to make decisions aligned with shareholder interests. In further discussion of agency relationships and cost (Jensen and Meckling, 1976) describe agency relationship as a contract under which “one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent”. In this scenario, there exists a conflict of interests between managers or controlling shareholders, and outside or minority shareholders leading to the tendency that the former may extract “perquisites” (or perks) out of a firm’s resources and be less interested to pursue new profitable ventures. Agency costs include monitoring expenditures by the principal such as auditing, budgeting, control and compensation systems, bonding expenditures by the agent and residual loss due to divergence of interests between the principal and the agent. The share price that shareholders (principal) pay reflects such agency costs. To increase firm value, one must therefore reduce agency costs. The following represent the key issues towards addressing opportunistic behavior from managers within the agency theory: • Composition of board of directors: The board of directors is expected to be made up of more non-executive directors (NEDs) for effective control. It is argued that this reduces conflict of interest and ensures a board’s independence in monitoring and passing fair and unbiased judgment on management. 3 • CEO duality: It is expected also that different individuals occupy the positions of CEO and board chairperson as this reduces the concentration of power in one individual and thus greatly reduces undue influence of particular management and board members.

**2.1.2 Stakeholder Theory**

One argument against the strict agency theory is its narrowness, by identifying shareholders as the only interest group of a corporate entity necessitating further exploration. By expanding the spectrum of interested parties, the stakeholder theory stipulates that, a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction (Abrams, 1951). The stakeholder theory is therefore appears better in explaining the role of corporate governance than the agency theory by highlighting the various constituents of a firm. Thus, creditors, customers, employees, banks, governments, and society are regarded as relevant stakeholders. Related to the above discussion, John and Senbet (1998) provide a comprehensive review of the stakeholders’ theory of corporate governance which points out the presence of many parties with competing interests in the operations of the firm. They also emphasize the role of non-market mechanisms such as the size of the board, committee structure as important to firm performance. Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. For instance, McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone’s position (Freeman et al., 2004). Jensen (2001) critique the Stakeholders theory for assuming a single-valued objective (gains that accrue to a firm’s constituencies). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, inter-personal relations, working environment, etc are all critical issues that should be considered. Some of these other issues provided a platform for other arguments as discussed later. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et al., 2005).

**2.1.3 Resource dependency theory**

While, the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in

providing access to resources needed by the firm. Hillman, Canella andPaetzold (2000) contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Indeed, Johnson et al, (1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm executives that may otherwise be more costly for the firm to secure. It has been argued that the provision of resources enhances organizational functioning, firm’s performance and its survival (Daily et al, 2003). According to Hillman, Canella and Paetzold (2000) that directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Directors can be classified into four categories of insiders, business experts, support specialists and community influential. First, the insiders are current and former executives of the firm and they provide expertise in specific areas such as finance and law on the firm itself as well as general strategy and direction. Second, the business experts are current, former senior executives and directors of other large for-profit firms and they provide expertise on business strategy, decision making and problem solving. Third, the support specialists are the lawyers, bankers, insurance company representatives and public relations experts and these specialists provide support in their individual specialized field. Finally, the community influential is the political leaders, university faculty, members of clergy, leaders of social or community organizations.

**2.1.4 Stewardship Theory**

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman& Donaldson (1997) as “a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximized”. In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson &Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Agyris (1973) argues agency theory looks at an employee or people as an economic being, which suppresses an individual’s own aspirations. However, stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson and Davis, 1991). It stresses on the position of employees or executives to act more autonomously so that the shareholders’ returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviors (Davis, Schoorman&Donaldson, 1997). On the other end, Daly et al. (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders’ profits. In this sense, it is believed that the firm’s performance can directly impact perceptions of their individual performance. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vishny (1997) insists that managers return finance to investors to establish a good reputation so that that can re-enter the market for future finance. Stewardship model can have linking or resemblance in countries like Japan, where the Japanese worker assumes the role of stewards and takes ownership of their jobs and work at them diligently. Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have greater role as stewards in the organization. It was evident that there would be better safeguarding of the interest of the shareholders. It was empirically found that the returns have improved by having both these theories combined rather than separated (Donaldson and Davis, 1991).

**2.1.5 Transaction Cost Theory**

Transaction cost theory was first initiated, theoretical described and exposed by Williamson (1996). Transaction cost theory was an interdisciplinary alliance of law, economics and organizations. This theory attempts to view the firm as an organization comprising people with different views and objectives. The underlying assumption of transaction theory is that firms have become so large they in effect substitute for the market in determining the allocation of resources. In other words, the organization and structure of a firm can determine price and production. The unit of analysis in transaction cost theory is the transaction. Therefore, the combination of people with transaction suggests that transaction cost theory managers are opportunists and arrange firms’ transactions to their interests (Williamson, 1996).

**2.2.6 Political Theory**

Political theory brings the approach of developing voting support from shareholders, rather by purchasing voting power. Hence having a political influence in corporate governance may direct corporate governance within the organization. Public interest is much reserved as the government participates in corporate decision making, taking into consideration cultural. The political model highlights the allocation of corporate power, profits and privileges are determined via the governments’ favor. The political model of corporate governance can have an immense influence on governance developments. Over the last decades, the government of a country has been seen to have a strong political influence on firms. As a result, there is an entrance of politics into the governance structure or firms’ mechanism (Pound, 1993).

**2.2 Review of related articles**

This of literature review concentrates on previous studies that have been conducted in relation to this study. There were mixed results conducted by previous studies pertaining to the relationship between corporate governance mechanism and commercial bank’s financial performance. The important empirical studies are summarized below in this section.

Aljifri& Mustafa (2007), provided evidence on the impact of corporate governance mechanisms on firm’s performance using 51 United Arab Emirates listed firm by using both accounting and market data for the year 2004. They have employed cross sectional regression analysis to test whether the selected corporate governance variables have an impact on firm’s performance or not after controlling ratio, and the payout dividend ratio have a significant impact on the firm performance (Tobin’s Q), whereas the institutional investors, the board size the firm size, and the audit type have insignificant effect on firm’s performance. The study was concluded that three of the corporate governance mechanisms, governmental ownership, debt ratio, and the payout dividends ratio were strong enough to affect the performance of United Arab Emirates listed firms.

Babatunde&Olaniran (2009), analyze the effects of internal and external governance mechanism on performance of corporate firm in Nigeria. In the study of panel data regression analysis was used with a sample of 62 firms listed on the Nigerian Stock Exchange for a period of five years from 2002 to 2006 to examine the relationship between internal and external government mechanisms and corporate firm’s performance. The researcher found a positive and significant relationship between board size, block shareholders, leverage and the dependent variable Tobin’s Q. However, the study revealed an inverse relationship between director’s shareholding, firm size, independence of the audit committee and the numbers of outside directors on the board. When the return on asset was used as dependent variable significant positive relation of board size, block holders and leverage with return on assets was found. However, there was negative relationship between the number of outside directors on board, director’s shareholding, independence of the audit committee, firm size and return on asset. In addition, the study found that the measure of performance matter for analysis of corporate governance studies. In some cases, different results were obtained based on the measure used.

Sanikat&Abbadi (2011), assesses the reality of corporate governance in Jordan. It identifies the framework of corporate governance, which has here been set into two dimensions – institutionalizations and regulations – and describes the five major principles of corporate governance. The study was carried out by interviews with key employees and the review of related laws and selected annual reports. The study found (1) basic shareholder rights were honored in decision-making, except for large decisions such as major asset sales; (2) shareholders were not treated equitably in practice, although controllers sometimes took action and prohibited insider trading; (3) the role and rights of stakeholders in corporate governance were respected, and stakeholders had a number of legal protections, which were largely covered in Jordan's Company Law; (4) disclosure and transparency were observed to a large extent, although limited to quantity rather than quality, because Jordan has fully adopted IFRS and ISA and (5) boards largely fulfilled their responsibilities, as these are extensively defined by law and regulation.

Amran (2011) empirically studied the association between corporate governance mechanisms and company performances. It was expected that corporate governance mechanisms affect company performance. The hypothesis was tested on 424 public listed Malaysian companies (233 family controlled firms and 191 non family controlled firms) and data about corporate governance mechanism and company’s performance was collected from Sultanbhaiyah library database from the year 2003 to 2007. Board size, board independence, director’s qualification, director’s professional qualification, leadership structure were used as a corporate governance mechanism, debt, firm age and firm size were used as control variables while Tobin’s Q was used as a measure of company performance. Panel data methodology with generalized least square estimation method was used to test the hypothesis

. The analysis has been done by classifying the sample as family controlled firm and non-family controlled firms. Board size and leadership duality was a significant negative influence on family controlled firms performance but insignificant for non-family controlled firms. Firm age was a significant negative and positive association between the performance of family controlled and non-family controlled firms respectively. On the other hand, there was a significant negative relationship between firm size and performance of both family controlled and non-family controlled firms. The other variable such board independence and director’s professional qualification were insignificant for both classes of firms.

Tsegba& Herbert (2013), examines the relationship between two patterns of their impact on firm performance in Nigeria. Concentrated and foreign ownership structures result in systematic variations in performance among Nigerian firms. The sample comprises a panel of 72 non periods 2003 to 2007. The combination of 72 firms for a five which can be analyzed by using panel data method and earnings per share. The postulated hypotheses were tested, using the Ordinary Least Squares (OLS) method of data analysis. The empirical results suggest that concentrated ownership ha performance. The results do not, therefore, lend credence to government’s unremitting emphasis on ownership concentration as a governance mechanism that can address the dismal performance of the state (SOEs). The results however, show that foreign ownership has significant positive impact on firm performance. The findings resonate with policy initiatives that promote foreign ownership investments.

Shungu, Ngirande&Ndlovu (2014), Analyze the background of corporate governance dates back to the 19th Century when state corporation laws enhanced the rights of corporate boards without unanimous consent of shareholders. The concept propounds that corporation should have a good board structure in order to enhance performance. It is firmly rooted on the assumption that good corporate governance practices enhance corporate performance. However, there is no consensus on the impact of corporate governance on performance. The increasing role of the financial sector, on both economic development and poverty alleviation, has seen the concept being applied more on the financial sector than before; this has been further aggravated by world financial crisis, and its consequences. In this regard, Zimbabwe is no exception, during the period 2003-2009 the Zimbabwe witnessed unprecedented failure in the financial sector rooted from a number of issues; but chief among them has been cited as poor corporate governance practices. However, there have been mixed feelings on the extent to which bank performance can be attributed to corporate governance.

 The paper presents the findings of the study that was conducted to investigate the impact of corporate governance on the performance of commercial banks in Zimbabwe. Using data gathered from 2009-2012, for a sample of five commercial banks, it applies multi-regression model, to assess the causal relationship between corporate governance measures (board size, board composition, internal board committees and board diversity) and bank performance. The results indicate unidirectional causal relationship from corporate governance to bank performance. In addition, there a positive relationship between board composition, board diversity and commercial bank performance, although a negative relationship appears between board size, board committees and bank performance. Therefore, in order to improve performance in commercial banks good corporate governance practices must implemented, this includes improving board structures, disclosure, and fiduciary duties of directors. On the hand the Reserve Bank of Zimbabwe should ensure or put in place robust supervisory and regulatory policies; the development and implementation of a national corporate governance code is long overdue.

Kar&Sarker (2014), Studied Corporate governance (CG) is an important effort to ensure accountability and responsibility and is a set of principles, which should be incorporated into every part of the organization. Financial institutions like banks have a significant role to play in the economy of any country. Banking sector should follow the Corporate Governance codes for Bangladesh. So, this paper has tried to evaluate the present scenario of Corporate Governance practices by the private banks in Bangladesh. The study has been conducted to attain some objectives. The primary objective of the study is to evaluate the practices of Corporate Governance codes by the Private Commercial Banks of Bangladesh. In order to do the study, the major issues were focused like rights and disclosure of information, disclosure and transparency, board issues, disclosure and transparency, financial reporting and HRM practices.7 hypotheses have been developed in order to identify whether the private banks are complying corporate governance issues or not. And making the study convenient an assumption was made using subjective probability technique that 70% or more of private banks of Bangladesh are maintaining 90% or more CG codes for Bangladesh (Alam, K, 2011). Only 50% of the major issues like disclosure and transparency, financial reporting and audit practice have met the assumption. Of which 100% of the CG codes regarding financial reporting are practiced by the 70% or more private banks and it was 83.33% for audit practice.

 In contrast the major issues of CG codes namely shareholders’ rights and disclosure of information, board issues and HRM issues are not properly exercised by the private banks. It follows that rights of shareholders are despoiled by the private banks the reason why only 60% of the issues have been met by 70% or more private banks. Likewise the board and HRM issues have also failed to meet the assumption. In these two cases the conformance percentages were 60% and 50% correspondingly. Consequently the study recommends some approaches that are well thought out for the practice of corporate governance codes by the private commercial banks of Bangladesh.

Al-Sahafi, Rodrigs& Barnes (2015), examines the relationship between corporate governance variables and financial performance of all listed banks in Saudi Arabia. The archival data for this study uses the entire population of listed banks on the Saudi Stock Exchange. The annual reports for all listed banks in Saudi Arabia for years 2009 to 2012 have been analyzed. The study uses different variables of corporate governance (board size, independence, CEO status, audit committee and ownership concentration) and three measures of financial performance (ROA, ROE and Tobin’s Q). The result of this study show that board size, board independence and bank size have a significant positive relationship with banks’ financial performance, whereas ownership concentration and leverage ratio have a significant negative association with banks’ financial performance. However, the CEO status, audit committee size and audit committee independence are not related to banks’ financial performance.

Xavier, Shukla, Oduor&Mbabazize (2015) examine the effect of corporate governance on the financial performance of commercial banks in Rwanda. The four corporate governance variables (board size, CEO duality, institutional ownership and board composition) affect financial performance of commercial banks in Rwanda using descriptive research design. The total population of this study was 120 composed by the senior managers and the sample size was 92 but only 76 respondent to the questions asked which represents 84%. The key findings for this research were showing that board independence, board composition, institutional ownership do not have an effect on financial performance. The analysis of variance has shown that corporate governance variables are not significant predictors to explain the increasing profitability represented by return on asset and return on equity. This research has concluded that there is no effect between corporate governance using board size, board composition, CEO duality as well as institutional ownership not predictors of financial performance commercial banks in Rwanda.

Rao&Desta(2016), determine the effect of corporate governance on financial performance of Ethiopian commercial banks. The annual reports of sample commercial were the sources of data. The proxies used for financial performance are return on equity and return on asset. Content analysis was applied to determine the level of disclosure using un-weighted checklist. Accordingly, the level of disclosure practice is measured by the ratio of disclosure score of a commercial bank to its t total obtainable score. In addition, correlation and regression analyses were made to determine the relation between corporate governance and financial performance. The results indicate that disclosure practice, board size, board gender diversity and ownership type have no significant impact on the financial performance of Ethiopian commercial banks. However, asset size and capital structure have significant effect on both on the return on equity and return on asset.

J. Augusto Felicio, Ricardo Rodrigues & Antonio Samagaio (2016),examines the role of commercial banks’ governance mechanisms in financial performance and loan quality. The research draws upon corporate governance theory, agency theory, and information asymmetry. Fuzzy-set QCA was used to analyze a sample of 32 commercial banks listed in the UK. Data referred to the pre-crisis period. Results confirm that different combinations of governance mechanisms can yield similar financial performance and loan quality. This research contributes to a better understanding of the relationships among banking governance mechanisms, financial performance, and loan quality. The paper also has practical implications because it identifies alternative governance solutions for the commercial banking sector.

Faccio, Marchica& Mura (2016), extend the literature on how managerial traits relate to corporate choices by documenting that firms run by female CEOs have lower leverage, less volatile earnings and higher chances of survival than other similar firms run by male CEOs. Additionally, transitions for male to female CEOs are associated with economically and statistically significant reduction (increases) in corporate risk taking. The results are robust to controlling for the endogenous matching between firms and CEOs using a variety of econometric techniques. We further document that this risk avoidance behavior appears to lead to distortions in the capital allocation process. These results potentially have important macroeconomic implications for long term economic growth.

Achim, Borlea& Mare (2016), studied contribution towards the understanding of movements regarding the adoption of corporate governance practice in emerging countries such as Romania and its impact on business performances of a company. They have developed two econometric models to assess the business performances of the companies listed on Bucharest Stock Exchange, in order to point out the impact of corporate governance on business performances. Their results are inconsistent for the 2001-2011, but if they consider only 2011, the results document a positive correlation between corporate governance quality and market value of companies, such it is reflected by Tobin's Q. Therefore their results contribute to the studies relating to corporate governance and business performances, as it confirms a positive relationship between the two variables which appears once the Romanian emerging economy has began to adopt the best corporate governance practices. Firstly, their research important implications for managers in order to know that the adoption of the best corporate governance practices could contribute to the financial success of the firm. Secondly, the results are useful for any investor who needs to consider the quality of corporate governance as a good predictor for the best rate of return of their return on investments. Moreover, their findings have also implication on policy makers and regulatory authorities in European developing countries and offer them a barometer of adopting the best corporate governance practices in European space.

Sila, Gonzalez &Hagendorff (2016), investigate the relationship between board room diversity and firm risk. To identcify a casual effect of gender on risk, they use a dynamic model that controls for reverse causality and for gender and risk bearing influenced by unobservable firm factors. They found no evidence that female boardroom representation influences equity risk. They also show that finding of a negative relationship between the two variables are spurious and driven by unobserved between - firm heterogeneous factors.

Mohammed RafiaulAlam&FahmidaAkther (2017),investigates the effect of corporate governance mechanisms on performance of commercial banks in Bangladesh. To conduct the study, four hypotheses have been developed. In order to test the hypotheses, 140 observations are collected by taking 14 sample banks for a period of 10 years ranging from 2006 to 2015. In this paper, four corporate governance tools such as Board Size, Board Independence, Internal Audit Committee Members and Capital Adequacy Ratio are taken as independent variables and Return on Asset, Return on Equity and Earnings per share are taken as dependent variable to measure bank performance. Correlation Analysis and Multiple regressions are used to examine the hypotheses in this study. The result shows that Board size, number of independent directors and number of internal audit committee members are inversely related to bank performance. Regression results also shows there is a linear relation exists between capital adequacy ratio and return on asset but nonlinear relation between CAR and other two performance measures return on equity and earnings per share. It may be due to Bangladesh Banks' regulations to maintain 8% CAR level to protect depositors' interest which is very nominal. If CAR reaches to such level in which depositors will start to believe that bank is capable enough to face any unexpected situation, therefore, implementing better corporate governance. It will lead a bank to get more deposits and investment. This study provides useful information in increasing understanding on the relationship between corporate governance practices and bank performance. The study also reveals that policymakers, regulators, owners and stakeholders should focus more on effectiveness and efficiency of respective board members rather than number.

Sanda, Mikailu&Garba (2017),investigated the effect of corporate governance on financial performance of Insurance companies in Nigeria. The study adopted *ex-post facto* research design and panel data covering five year period from 2011-2015 for twenty insurance companies. The study examined a range of corporate governance mechanisms such as board size, board independence, executive directors’ remuneration, non-executive directors’ remuneration, directors’ ownership, institutional ownership, foreign ownership and the study controlled the effect of the firm size using log of total assets. The Fixed effects model was used to evaluate the effect of these corporate governance mechanisms on financial performance of Nigerian insurance companies. The fixed effect econometric estimates showed that, board size and non-executive directors’ remuneration have negative and significant effect on financial performance proxy by return on assets (ROA). While board independence and institutional ownership indicated positive and significant impact on the financial performance as predicted by agency theory. However, contrary to theoretical predictions executive directors’ remuneration, directors’ ownership, and foreign ownership did not make significant impact on the financial performance of Nigerian insurance companies. However, the fixed effect econometric estimator employed in this study indicated that corporate governance mechanisms affect the financial performance of Insurance companies in Nigeria. Therefore, the study recommends among other things that the board be restructured to a manageable size, and suggested that a performance-based remuneration be design for the directors. In addition, more non-executive directors should be appointed to the corporate board to enhance the effectiveness of the board in aligning the interest of the stakeholders.

**2.3 Conceptual Framework**

## A conceptual framework is an analytical tool with several variations and contexts. Conceptual framework of the study describes the systematic explanation of the relationship among the dependent and independent variables for the purpose of clarifying the relationship between corporate governance and return on equity of Nepalese commercial banks. It helps to define the focus and goal of the research problem. Based on the objective of the study and the literature review following conceptual framework is framed to summarize the main focus and scope in terms of variables included.

This section provides the conceptual framework of study and describes about variables that have been used in study and the relationship between the variables. In this study, dependent variable is ROE of Nepalese commercial banks. The independent variables are board size, no. of board meetings and capital adequacy ratio. Thus, the following conceptual model is framed to summarize the main focus and scope of this study in terms of variables included. The conceptual frameworks that describe the dependent and independent variables used in the study are shown in the Figure 2.3.1

(Independent Variables) (Dependent Variables)

Leverage

Return on Assets (ROA)

 Board Size

Non- Performing Loan

Capital Adequacy Ratio

Return on Equity (ROE)

 Figure 2.3 Conceptual Framework

Hypothesis:

H0: There is no significant impact of board size on return on equity

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

H0: There is no significant impact of board size on return on assets

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

H0: There is no significant impact of non-performing loan on return on equity

H1: There is a significant impact of non-performing loan on return on equity

H0: There is no significant impact of non-performing loan on return on assets

H1: There is a significant impact of non- performing loan on return on assets

H0: There is no significant impact of capital adequacy ratio on return on equity

H1: There is a significant impact of capital adequacy ratio on return on equity

H0: There is no significant impact of capital adequacy ratio on return on assets

H1: There is a significant impact of capital adequacy ratio on return on assets

H0: There is no significant impact of leverage on return on equity

H1: There is a significant impact of leverage on return on equity

H0: There is no significant impact of leverage on return on assets

H1: There is a significant impact of leverage on return on assets

The independent variables are assumed to affect the dependent variables (ROE and ROA) of commercial banks. The independent variables are selected depending upon prior theoretical and empirical grounds.

**2.4 Research Gap**

Although, previous researchers have been carried out regarding corporate governance practices in commercial banks in Nepal, but they have attempted to examine the impact of governance mechanisms on the performance of Nepalese commercial banks using dependent and independent variables. Similarly, most research conducted in well-developed as well as developing economy countries in large commercial banks. Nepalese commercial banks are small size rather than developed economy countries’ commercial banks, so this research has attempted to examine the impact of corporate governance mechanisms on financial performance of commercial banks in small size commercial banks in Nepal. So this study will be fruitful to those interested persons, scholars, students, teachers, society, other stakeholders, businessman and government for academic as well as policy perspectives.

**CHAPTER-III**

**RESEARCH METHODOLOGY**

Research is common parlance that refers to a search for knowledge. It is careful, critical inquiry or examination on seeking and facts and principles, diligent investigation in order to ascertain something. It describes the methods and process applied in the entire aspect of the study. In other word, research methodology is a systematic way to solve the research problem. Research methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain view. This chapter deals with methodologies that have been adopted to attain the stated objectives of the study. It is basically focused on the methodological issues associated with this study. A focus is given to introduction, research design, population and sample, nature and sources of data, and data analysis tools and technique using empirical models.

**3.1 Research Design**

In this study, descriptive research design is adopted. To examine the interrelation of ROE and ROA with board size, capital adequacy ratio, nonperforming loan, leverage and other financial indicators. Some financial and statistical tools have been applied such as standard deviation, correlation, regression analysis to examine facts and descriptive techniques have been used to determine the impact of corporate governance on the performance of Nepalese commercial banks. Also questionnaire method used to collect information from respondent to analyze problems on CG in Nepalese Commercial Banks. The questionnaire are left with the respondents and are requested to fill up the questionnaire on the free time, not instantly. After few days, it was collected back, following no influence of the researcher on the respondents. In order to get diverse responses from the respondents, questionnaire was distributed to employees of various commercial banks.

**3.2 Population and Sample**

## In order to observe the impact of corporate governance on the performance of Nepalese commercial banks, this study contains a sample of 6 commercial banks of Nepal for the time period of 2006/07 to 2015/16.There are 28 commercial banks in Nepal and convenience sampling method is used for this study.. Also for the questionnaire purpose 50 employees are selected from A class commercial banks. Table 3.1 presents the list of sample bank along with study period and number of observations

**3.2.1: List of sample banks selected for the study along with the study period and number of observations**

Table no 3.2.1

|  |  |  |  |
| --- | --- | --- | --- |
| **S.N** | **Name of bank** | **Study period** | **Observation** |
| 1 | Nabil Bank Ltd.  | 2006/07-2015/16 | 10 |
| 2 | Nepal Investment Bank Ltd. | 2006/07-2015/16 | 10 |
| 3 | Standard Chartered Bank Nepal Ltd.  | 2006/07-2015/16 | 10 |
| 4 | Himalayan Bank Ltd.  | 2006/07-2015/16 | 10 |
| 5 | Nepal SBI Bank Ltd.  | 2006/07-2015/16 | 10 |
| 6 | Everest Bank Ltd.  | 2006/07-2015/16 | 10 |
|  | Total observation |  | 60 |

**3.3 Nature and Sources of data**

The main purpose of this study is to analyze the relationship between corporate governance mechanisms on the financial performance of Nepalese commercial banks as well as analyze CG problems on Nepalese commercial banks. This research is based on both primary and secondary data. The necessary primary data and information has been collected from questionnaire and the necessary secondary data and information has been collected from annual report of individual bank, Nepal Rastra Bank supervision report, SEBON, Nepal Stock Exchange (NEPSE) and the financial statement of respective banks, researches, journals, unpublished thesis reports, newspapers, Internet and Websites etc.

**3.4 Data Collection and Processing Procedure**

The research is based on both primary and secondary data. Descriptive and inferential data analysis is aimed to be calculated. To collect primary data questionnaire has used and to collect the secondary data Internet web sites, annual reports of listed companies has used. For mathematical analysis, various financial and statistical tools like average (mean), standard deviation, regression, correlation and etc. has used. Similarly, SPSS, Spreadsheet, Excel and word has used to perform calculation.

**3.5 Data Analysis Tools and Technique**

Data collection from various sources leads to the logical conclusion appropriate tools and technique are adopted for analysis of such data. The collection data has no meanings if such data are not analyzed. A statistical and financial tool has used to analyze the data in this study; the different tools used in study are as follows:

**3.5.1 Arithmetic Mean**

Mean is the value, which represent the group of value and gives an idea about the concentration of value in the central part of the distribution. An average gives us a point, which is most representative of the data. It depicts the characteristics of the whole group. The value of arithmetic mean lies in between the two extreme observation of the entire data. It is an envoy of the mass homogeneous data.

The value of the AM is obtained by adding together all the items by dividing this total by the number of items.

Mathematically,

Arithmetic Means (AM) is given by,

X̅ = $\frac{\sum\_{}^{}x}{n}$

Where,

X=Arithmetic Mean

∑X= Sum of all the values of the variable X

n= Number of observation

**3.5.2 Standard Deviation**

The standard Deviation (σ) measure the absolute dispersion. The greater the standard deviation, greater will be magnitude of the deviations of the values form their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and vice versa.

Mathematically,

$$σ=\sqrt{\frac{1}{n}}\sum\_{}^{}(X-\overbar{X})^{2}$$

**3.5.3 Coefficient of Variation**

Coefficient of Variation (CV) is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool.

Mathematically,

CV=$\frac{σ}{X̅}×100$

**3.5.4 Correlation Coefficient (r)**

When the relationship is of quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it, in a brief formula is known as correlation. If the values of the variables are directly proportionalthan, the correlation is said to be positive. On the other hand, if the values of the variable are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1 by Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by,

$$r\_{xy}=\frac{cov(X,Y)}{σXσY}$$

$$r\_{xy}=\frac{N\sum\_{}^{}XY-\sum\_{}^{}X\sum\_{}^{}Y}{\sqrt{N\sum\_{}^{}X^{2}}-(\sum\_{}^{}X)^{2}\sqrt{N\sum\_{}^{}Y^{2}-(\sum\_{}^{}Y)^{2}}}$$

Where, $r\_{xy}$ is the correlation between two variables X and Y, ‘r’ lies always between +1 and -1

When ‘r’ = +1, there is perfect positive correlation.

When ‘r’ = -1, there is perfect negative correlation.

When ‘r’ = 0, there is no correlation.

When ‘r’ lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

When ‘r’ lies between 0.5 and 0.699, there is a moderate degree of correlation.

When ’r’ is less than 0.5, there is low degree of correlation.

**3.5.5 Coefficient of Determination (r2)**

The coefficient of determination is the way to measure the contribution of independent variable in predicting the dependent variables. It is more appropriate while verifying the results than the correlation coefficient and computed by square of the correlation coefficient as mentioned above.

$R^{2}$ = r × r

**3.5.6 Regression Analysis**

Regression is the statistical tool, with the help of which we can predict the unknown value of one variable from known value of any other variable. Assuming that the two variables are closely related, we can estimate the value of one variable from the value of another. The variable, whose value is given, is called independent variable and the variable whose value is to be predicted is called dependent variable. Hence, regression determines the average probable change in one variable based on a certain amount of change in another. It is a statistical tool for determining relationship between the variables by the establishment of an approximate functional relationship between them. It is used to determine that whether the dependent variable is influenced by the given independent variable or not.

Regression analysis is a branch of statistical theory that is widely used in almost all the scientific disciplines.

**Multiple Regression Analysis**

Multiple regression analysis is a logical extension of the simple linear regression analysis. Instead of single independent variable, two or more independent variable are used to estimate the unknown values of a dependent variable. However the fundamental concept in the analysis remains the same.

Multiple regression is defined as statistical device which is used to estimate (or predicts) the most probable value of dependent variable on the basis of known value of two or more independent variables.

The following multiple regression equation is analyzed.

Y = β0+ β1X 1+ β2X2+ β3X3 + β4X4+ β5X5+E

Where, Y= Return on Equity (dependent variable), β0= Risk, X1=BS, X2=NPL, X3=CAR, and X4 =LEV are (independent variables), E *=* error term

Also,

 Y = β0+ β1X 1+ β2X2+ β3X3 + β4X4+ β5X5+E

Where, Y= Return on Assets (dependent variable), β0= Risk, X1=BS, X2=NPL, X3=CAR, and X4 =LEV are (independent variables), E *=* error term

**3.6. Validity and Reliability**

Validity and reliability are two factors which any qualitative research should consider while designing a study, analyzing results and judging the quality of the study.

The study carried out has considered primary and secondary data for the purpose of analysis and to extract the findings as per the objectives of the study. The reliability and validity of the secondary data depends upon the data in the annual report and data banks of the sample selected. The reliability of the primary data is confirmed through the calculation of the Cronbach's Alfa through the use of SPSS tool.

 **Cronbach's Alpha** Table no 3.6

|  |  |
| --- | --- |
| Cronbach's Alpha | N of Items |
| .717 | 15 |

*Source: SPSS output*

The table 3.6 depicts the value of Cronbachs Alfa calculated of the likert questionnaire used during the survey. The calculation reveals the value of cronbach alfa to be 71.7% which meets the minimum standard of being reliable of the data.

**CHAPTER IV**

**RESULT DISCUSSION**

In this section, descriptive statistics and trend analysis are used to summarize and compare variables. To assess the relationship between market share and selected financial indicators, correlation, regression analysis are tested.

**4.1 Description and Comparison of Variables under Study**

The descriptive analysis of 6 sample banks from 2006-07 to 2015-16 are as follows:

Table 4.1 Comparison of Descriptive study across Banks

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  Banks  | N | Minimum | Maximum | Mean | Std. Deviation | CV |
| ROE NABIL | 10 | 22.73 | 42.3 | 31.94 | 5.84 | 18.28 |
| ROE SCBNL | 10 | 17.18 | 33.58 | 28.2 | 5.36 | 19.01 |
| ROE HBL | 10 | 14.79 | 25.3 | 20.17 | 3.79 | 18.78 |
| ROE NIBL | 10 | 20.1 | 31.7 | 25.96 | 3.06 | 11.81 |
| ROE EBL | 10 | 20.32 | 30.47 | 26.53 | 3.57 | 13.44 |
| ROE NSBI | 10 | 15.02 | 28.85 | 19.83 | 4.10 | 20.70 |
| ROA NABIL | 10 | 2.06 | 3.25 | 2.48 | 0.36 | 14.64 |
| ROA SCBNL | 10 | 2.01 | 2.80 | 2.49 | 0.23 | 9.41 |
| ROA HBL | 10 | 1.30 | 2.03 | 1.54 | 0.26 | 16.86 |
| ROA NIBL | 10 | 1.54 | 2.62 | 1.94 | 0.34 | 17.66 |
| ROA EBL | 10 | 1.58 | 2.24 | 1.89 | 0.24 | 12.96 |
| ROA NSBI | 10 | 0.83 | 1.80 | 1.37 | 0.29 | 21.23 |
| BS NABIL | 10 | 5 | 8 | 7.00 | 1.05 | 15.06 |
| BS SCBNL | 10 | 5 | 6 | 5.90 | 0.32 | 5.36 |
| BS HBL | 10 | 8 | 9 | 8.70 | 0.48 | 5.55 |
| BS NIBL | 10 | 6 | 8 | 7.10 | 0.57 | 8.00 |
| BS EBL | 10 | 8 | 9 | 8.40 | 0.52 | 6.15 |
| BS NSBI | 10 | 6 | 8 | 7.30 | 0.95 | 13.00 |
| CAR NABIL | 10 | 10.5 | 11.73 | 11.14 | 0.44 | 3.96 |
| CAR SCBNL | 10 | 12.10 | 16.38 | 13.76 | 1.26 | 9.21 |
| CAR HBL | 10 | 10.68 | 12.11 | 11.19 | 0.44 | 3.97 |
| CAR NIBL | 10 | 10.55 | 14.92 | 11.69 | 1.23 | 10.49 |
| CAR EBL | 10 | 10.43 | 13.33 | 11.50 | 0.90 | 7.79 |
| CAR NSBI | 10 | 11.21 | 14.02 | 12.57 | 0.92 | 7.28 |
| NPL NABIL | 10 | 0.74 | 2.33 | 1.56 | 0.59 | 37.78 |
| NPL SCBNL | 10 | 0.32 | 1.83 | 0.73 | 0.43 | 58.66 |
| NPL HBL | 10 | 1.23 | 4.22 | 2.73 | 0.92 | 33.71 |
| NPL NIBL | 10 | 0.58 | 3.32 | 1.79 | 1.00 | 56.15 |
| NPL EBL | 10 | 0.16 | 0.97 | 0.59 | 0.25 | 42.38 |
| NPL NSBI | 10 | 0.14 | 4.56 | 1.45 | 1.58 | 109.12 |
| LEV NABIL | 10 | 9.95 | 14.24 | 11.60 | 1.43 | 12.29 |
| LEV SCBNL | 10 | 7.66 | 12.51 | 10.41 | 1.67 | 16.03 |
| LEV HBL | 10 | 10.32 | 14.61 | 11.53 | 1.39 | 12.04 |
| LEV NIBL | 10 | 6.97 | 13.69 | 10.73 | 2.08 | 19.38 |
| LEV EBL | 10 | 11.91 | 16.83 | 13.62 | 1.58 | 11.58 |
| LEV NSBI | 10 | 9.50 | 17.16 | 13.42 | 2.88 | 21.48 |

The average of ROE of NABIL, SCBNL, HBL, NIBL, EBL and NSBI are: 31.94, 28.2, 20.17, 25.96, 26.53 and 19.83 respectively with respective standard deviation of 5.84, 5.36, 3.79, 3.06, 3.57 and 4.10. These values show that the higher average return on equity is that of NABIL and the lowest is of NSBI. The return on equity of NSBI is highly volatile i.e. 20.70% whereas return on equity of NIBL bank has less volatile in nature i.e. 11.81%. The low volatility indicates low risk, consistence performance and also high market trading and goodwill in market.

The average of ROA of NABIL, SCBNL, HBL, NIBL, EBL and NSBI are: 2.48, 2.49, 1.54, 1.94, 1.89 and 1.37 respectively with respective standard deviation of 0.36, 0.23, 0.26, 0.34, 0.24 and 0.29. These values show that the higher average ROA is that of SCBNL and the lowest is of HBL. The ROA of SBI is highly volatile i.e. 21.23 % whereas ROA of SCBNL is less volatile in nature i.e. 9.41 %. The low volatility indicates low risk, consistence performance and also high market trading and goodwill in market.

The average BS of NABIL, SCBNL, HBL, NIBL, EBL and NSBI are: 7, 5.9, 8.7, 7.1, 8.4 and 7.3 respectively with respective standard deviation of 1.05, 0.32, 0.48, 0.57, 0.52, and 0.95. These values shows that highest average BS is that of SCBNL and lowest of NABIL. The BS of NABIL is highly volatile i.e. 15.06% whereas BS of SCBNL is less volatile in nature.

The average CAR of NABIL, SCBNL, HBL, NIBL, EBL and NSBI are: 11.14, 13.76, 11.19, 11.69, 11.50 and 12.57 respectively with respective standard deviation of 1.05, 0.32, 0.48, 0.57, 0.52 and 0.95. These values show the higher average CAR is that of SCBNL and lowest is of NABIL. The CAR of NABIL is highly volatile i.e. 10.49% whereas CAR of NABIL is less volatile in nature i.e. 3.96%. The standard maintained by Nepal Rastra Bank of CAR is 11%. Capital adequacy is the indicator of how banks and financial institutions maintaining enough capital for risk emerged by risk weighted assets. In comparison to standard of Nepal Rastra Bank for CAR, all banks are able to maintain enough CAR

The average NPL of .NABIL, SCBNL, HBL, NIBL, EBL and NSBI are: 1.56, 0.73, 2.73, 1.79, 0.59 and 1.45 respectively with respective standard deviation of 0.59, 0.43, 0.92, 1, 0.25 and 1.58. These values show the higher average NPL is that of HBL and lowest is of EBL. The NPL of NSBI is highly volatile i.e. 109.12% whereas NPL of HBL is less volatile i.e. 37.71%.

The average LEV of .NBL, SCBNL, HBL, NIBL, EBL and SBI are: 11.60, 10.41, 11.53, 10.73, 13.62 and 13.42 respectively with respective standard deviation of 1.43, 1.67, 1.39, 2.08, 1.58 and 2.88. These values show the higher average LEV is that of EBL and lowest is of SCBNL. The LEV of SBI is highly volatile i.e. 21.48% whereas LEV of EBL is less volatile i.e. 11.58%.

**4.2 Trend Analysis**

The following time series plots are reference form Annex-II to compare and the situation of ROE as well as BS, CAR and NPL among different sample banks.

ROE OF SAMPLE BANKS

Figure: 4.2.1 ROE Comparison

The figure 4.2.1 exhibits the ROE comparison of six sampled commercial banks. The maximum ROE of NABIL is 42.3% in 2008/9 and minimum is 22.73 % in 2014/15.SCBNL has maximum ROE 33.58% in 2008/9 and has minimum ROE 17.18% in 2015/16. HBL has maximum ROE 25.3% in 2007/8 and has minimum ROE 14.79% in 2009/10.NIBL has maximum ROE 31.7% in 2012/13 and has minimum ROE 20.1% in 2011/12. EBL has maximum ROE 30.47% in 2012/13 and has minimum ROE 20.32% in 2015/16. NSBI has maximum ROE 28.85% in 2013/14 and has minimum ROE 15.02% in 2011/12.In viewing overall ROE 2008/9 year seems pleasing for NABIL, SCBNL and HBL as they have maximum ROE. Similarly, 2012/13 seems pleasing for NIBL and EBL as they have maximum ROE. Similarly, 2013/14 seems pleasing for NSBI as it has maximum ROE. According to the above trend analysis most of the banks have no consistency in ROE and there is decreasing trend in ROE during the observed years.

ROA OF SAMPLE BANKS

Figure: 4.2.2 ROA Comparison

The figure 4.2.2 exhibits the ROA comparison of six sampled commercial banks. The maximum ROA of NBL is 3.25 % in 2013/14 and minimum is 2.06 % in 2015/16. SCBNL has maximum ROA2.80 % in 2012/13 and has minimum ROA2.01% in 2015/16. HBL has maximum ROA2.03 % in 2012/13 and has minimum ROA1.30 % in 2014/15. NIBL has maximum ROA2.62 % in 2013/14 and has minimum ROA1.54 % in 2006/07. EBL has maximum ROA2.24 % in 2013/14 and has minimum ROA1.58 % in 2006/07. NSBI has maximum ROA1.80% in 2015/16 and has minimum ROA 0.83 % in 2012/13.In viewing overall ROA 2013/14 seems pleasing for NBL, NIBL and EBL as they have maximum ROA. Similarly, 2012/13 seems pleasing for SCBNL and HBL as they have maximum ROA. Similarly, 2015/16 seems pleasing for SBIas it has maximum ROA. According to the above trend analysis most of the banks have volatility in ROA and there is decreasing trend in ROA during the observed years.

BS OF SAMPLE BANKS

Figure: 4.2.3 BS Comparison

The figure 4.2.3 exhibits the BS comparison of six sampled commercial banks. The maximum BS of NABIL is 8 members in 2006/7, 2007/8, 2009/10 and minimum is5 members in 2013/14. Similarly, SCBNLhave maximum 6 members in 2006/7, 2007/8, 2008/9, 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and minimum is 5 members in 2009/10. Likewise, HBL has maximum 9 members in 2006/7, 2007/8, 2008/9, 2010/11, 2011/12, 2012/13 and minimum 8 members in 2013/14, 2014/15, 2015/16. NIBL has maximum 8 members in 2006/7 and minimum 7 members in 2007/8, 2008/9, 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16. EBL has maximum 9 members in 2007/8, 2008/9, 2010/11 and minimum 8 members in 2011/12, 2012/13, 2013/14, 2014/15, 2015/16. NSBI has maximum 8 members in 2009/10, 2010/11, 2011/12, 2012/13, 2014/15, 2015/16 and minimum 6 members in 2006/7, 2007/8, 2008/9. In viewing overall BS, in 2009/10 most of the bank has higher BS. Board size of most of all banks is same for some years. In viewing overall trend there is decreasing trend in BS.

CAR OF SAMPLE BANKS

Figure: 4.2.4 CAR Comparison

The figure 4.2.4 exhibits the CAR comparison of six sampled commercial banks. The maximum CAR of NABIL is 11.73 % in 20015/16 and minimum is 10.5 % in 2009/10. SCBNL has maximum 16.38 % in 2015/16 and minimum is 12.27 % in 2013/14. HBL has maximum 12.11% in 2006/7 and minimum 10.68 % in 2010/11. NIBL has maximum 14.92 % 2015/16 and minimum 10.55 % in 2009/10. EBL has maximum 13.33 % in 2014/15 and minimum 10.43 % in 2010/11. NSBI has maximum 14.02 % in 2014/15 and minimum 11.21 % in 2011/12. In viewing overall CAR 2015/16 seems pleasing for most of the banks as they have maximum CAR and initial years the values are increasing rapidly and in middle years its pace is slowing down and declining and in most recent years again it is raising so on the whole CAR is in increasing trend during the observed years.

NPL OF SAMPLE BANKS

Figure: 4.2.5 NPL Comparison

The figure 4.2.5 exhibits the NPL comparison of six sampled commercial banks. The maximum NPL of NABIL is 2.33 % in 2013/14 and minimum is 0.74 % in 2007/8. SCBNL has maximum 1.83 % in 2006/7 and 0.32 % in 2015/16. HBL has maximum 4.22% in 2010/11 and minimum 1.23 % in 2015/16. NIBL has maximum 3.32 % 2011/12 and minimum 0.58 % in 2008/9. EBL has maximum 0.97 % in 2013/14 and minimum 0.16 % in 2009/10. NSBI has maximum 4.56 % in 2006/7 and minimum 0.14 % in 2015/16. In viewing overall NPL 2008/9 seems pleasing for NABIL and NIBL as they have minimum NPL. Similarly, 2009/10 seems pleasing for EBL as it has minimum NPL. Similarly, 2013/14 seems pleasing for HBL as it has minimum NPL. Similarly, 2015/16 seems pleasing for SCBNL and NSBI as they have minimum NPL. In initial years the values are decreasing rapidly and in middle years its pace is slowing up and decreasing and in most recent years again it is declining so on the whole NPL is in decreasing trend during the observed years.

LEV OF SAMPLE BANKS

Figure: 4.2.6 LEV Comparison

The figure 4.2.6 exhibits the LEV comparison of six sampled commercial banks. The maximum LEV of NBL is 14.24 % in 2007/08 and minimum is 9.95 % in 2012/13. SCBNL has maximum LEV12.51 % in 2006/7 and has minimum LEV 7.66 % in 2015/16. HBL has maximum LEV14.61 % in 2006/07 and has minimum LEV10.32 % in 2015/16. NIBL has maximum LEV13.69 % 2006/07 and has minimum LEV6.97 % in 2015/16. EBL has maximum LEV16.83 % in 2006/07 and has minimum LEV11.91 % in 2013/14. NSBI has maximum LEV17.16 % in 2011/12 and has minimum LEV 9.50 % in 2014/15. In viewing overall LEV 2012/13 seems pleasing for NBL as it has minimum LEV. Similarly, 2015/16 seems pleasing for SCBNL, HBL and NIBL asthey have minimum LEV. Similarly, 2013/14 seems pleasing for EBL as it has minimum LEV. Similarly, 2014/15 seems pleasing for SBI as it has minimum LEV. In initial years the values are decreasing rapidly and in middle years its pace is slowing up and decreasing and in most recent years again it is declining so on the whole LEV is in decreasing trend during the observed years.

OVERALL COMPARISON

Figure: 4.2.7 Overall Comparison

The figure 4.2.7 exhibits the overall comparison of six sampled commercial banks on the basis of average values of ROE, ROA, BS, CAR, NPL and LEV. In viewing overall analysis it can be viewed that NABIL has average value of ROE is maximum than those of other banks whereas in majority NSBI has average value of ROE is minimum. Similarly, HBL has average value of BS is maximum than those of other banks whereas in majority SCBNL has average value of BS is minimum. Similarly, SCBNL has average value CAR is maximum than those of other banks whereas in majority HBL has average value of CAR is minimum. Similarly, HBL has average value of NPL is maximum than those of other banks whereas in majority EBL has average value of NPL is minimum. Similarly, EBL has average value of LEV is maximum than those of other banks whereas in majority NIBL has average value of LEV is minimum.

**4.3 Correlation Analysis**

The correlation analysis and interpretation of six sampled bank’s SPSS out of is in Annex-III. The correlation interpretation along with the significance nature can be described as follows:

Table 4.3: Correlation Matrix

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | BS | CAR | LEV | NPL | ROE | ROA |
| BS | 1.000 |   |   |   |   |   |
| CAR | -0.489\*\* | 1.000 |   |   |   |   |
| LEV | 0.416\*\* | -0.341\*\* | 1.000 |   |   |   |
| NPL | 0.059 | -0.185 | -0.207 | 1.000 |   |   |
| ROE | -0.228 | -0.049 | -0.032 | -0.289\* | 1.000 |   |
| ROA | -0.537\*\* | 0.117 | -0.440\*\* | -0.144 | 0.542\*\* | 1.000 |

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

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

The board size has a negative relationship with return on equity, that is higher the board size lower will be the ROE .Table 4.3 shows the correlations between ROE and BS is -0.228. It shows that board size is negatively correlated with ROE.

Similarly, board size has a negative relationship with return on assets, that is, higher the board size, lower will be the ROA. Table no 4.3 shows the correlations between ROA and BS is – 0,537. It shows that, ROA is significantly negatively correlated with BS at 0.01 level of significance.

Similarly, the capital adequacy ratio has negative relation with return on equity, that is, higher the CAR, lower will be the ROE. Table 4.3 shows the correlations between ROE and CAR is -0.049.it shows that ROE is negatively correlated with CAR.

Similarly, the capital adequacy ratio has positive relation with ROA, that is, higher the CAR, higher will be the ROA. Table no 4.3 shows the correlation between ROA and CAR is 0.117. It shows that ROA is positively correlated with CAR.

Likewise, the non-performing loan has negative relation with return on equity. That is, higher the NPL, lower will be the return on equity. Table 4.3 shows the correlations between ROE and NPL is -0.289.It reveals that ROE is significantly negatively correlated with NPL at 0.05 levels of significance.

Similarly, the non-performing loan has negative relationship with ROA, that is, higher the non-performing loan, lower will be the ROA. Table no 4.3 shows the correlation between ROA and NPL is -0.144. It shows that ROA is negatively correlated with NPL.

Similarly, the leverage has negative relation with ROE, that is, higher the leverage, lower will be the ROE. Table no 4.3 shows the correlation between ROE and LEV is -0.032. It shows that ROE is negatively correlated with LEV.

Similarly, the leverage has negative relationship with ROA, that is, higher the LEV, lower will be the ROA. Table no 4.3 shows the correlation between ROA and LEV is -0.440. It reveals that ROA is significantly negatively correlated with LEV at 0.01 level of significance.

**4.4 Result of Regression Estimates**

Regression is statistical method for investing relationship between variables. This study attempts to estimate various econometric models to confirm the relationship between return on equity and fundamental variables and to test the robustness of the results. Results of the regression estimates of three explanatory variables BS, CAR and NPL are presented in different tables with linear model and analyze in the following sub headings. The analysis of the results of total sample is presented sector wise in different models and the separate analysis of the whole sector has been compared model wise. The models to be estimated as under:

 ROE=a+b1BS+ui……………………………………………………………………… (i)

 ROE =a+b1CAR+ui…………………………………………………………………… (ii)

 ROE =a+b1NPL+ui…………………………………………………………………. (iii)

 ROE =a+b1LEV+ui…………………………………………………………………. (iv)

ROA=a+b1BS+ui…………………………………………………………………… (v)

 ROA =a+b1CAR+ui………………………………………………………………… (vi)

 ROA =a+b1NPL+ui………………………………………………………………. (vii)

 ROA =a+b1LEV+ui………………………………………………………………. (viii)

Where 'a' is considered as constant term, 'b' is considered as the coefficient of independent variables and ui is disturbance or error term. In above model return on equity (ROE) and return on assets (ROA) are dependent variables. Board size (BS), capital adequacy ratio (CAR), non-performing loan (NPL) and leverage (LEV) have been considered as independent variables in each model.

Table no 4.4 Result of Simple Regression Analysis of Selected Banks

|  |  |  |  |
| --- | --- | --- | --- |
| Dependent Variable (ROE or Y) | Y intercept (a) | Slope (b) | Independent Variable (X) |
| Y | 34.27 | -1.19 | BS (X) |
| Y | 28.19 |  -0.23 | CAR (X) |
| Y | 27.72 | -1.55 | NPL (X) |
| Y | 26.48 | -0.88 | LEV(X) |

(Source: SPSS version 23)

The table no. 4.5 shows the simple regression analysis between Dependent Variable (ROE) and various independent variables BS, CAR, NPL and LEV. When the value of independent variables BS, CAR, NPL and LEV is zero the value of dependent variable ROE is 34.27, 28.19, 27.72, 26.48 and 25.92 respectively. Similarly, it also shows that ROE has negative relation with all independent variables.

Table no 4.4.1Result of Simple Regression Analysis of Selected Banks

|  |  |  |  |
| --- | --- | --- | --- |
| Dependent Variable (ROA or Y) | Y intercept (a) | Slope (b) | Independent Variable (X) |
| Y | 3.71 | -0.24 | BS (X) |
| Y | 1.39 |  0.05 | CAR (X) |
| Y | 2.05 | -0.07 | NPL (X) |
| Y | 3.16 | -0.11 | LEV(X) |

(Source: SPSS version 23)

The table no. 4.5.1 shows the simple regression analysis between Dependent Variable (ROA) and various independent variables BS, CAR, NPL and LEV. When the value of independent variables BS, CAR, NPL and LEV is zero the value of dependent variable

ROA is 3.71, 1.39, 2.05, 3.16 and 1.94 respectively. Similarly, it also shows that ROA has negative relation with BS, NPL and LEV and positive relationship with CAR.

**4.5 Corporate Governance Practice in Nepalese Commercial Banks**

Table 4.5

|  |  |  |  |
| --- | --- | --- | --- |
| Control Objective  | N | Mean | Std. Deviation |
| Bank has conducted financial literacy campaign. | 50 | 3.80 | 1.37 |
| Bank has followed compliance of BASEL principles as well as followed rules and regulations as per NRB directives. | 50 | 3.30 | 1.432 |
| Bank has an executive or management committee which is substantially different from members of the board and not believed to be dominated by referrals.  | 50 | 3.60 | 1.178 |
| Public announcement of results have been made promptly after board meeting. | 50 | 3.28 | 1.415 |
| The chairman is an independent, non executive director. | 50 | 3.44 | 1.431 |
| Bank has an audit committee. It is chaired by a perceived genuine independent director. | 50 | 3.82 | 0.850 |
| Bank has a remuneration committee. It is chaired by a perceived genuine independent director.  | 50 | 3.24 | 1.287 |
| External auditors of the company are in other respects seen to be completely unrelated to the company.  | 50 | 3.52 | 1.403 |
| The board includes no direct representatives of banks and other large creditors of the Company. (Having any representatives is a negative.)  | 50 | 3.70 | 1.313 |
| Audit committee nominates and conducts a proper review the work of external auditors. | 50 | 3.14 | 1.400 |
|  The audit committee supervises internal audit and accounting procedures.  | 50 | 3.44 | 1.232 |
| There are mechanisms to allow punishment of the executive/ management committee in the event of mismanagement.  | 50 | 3.28 | 1.310 |
| All the employees have access to their appraisal record.  | 50 | 3.24 | 1.506 |
| Company has an explicit equal employment policy.  | 50 | 3.68 | 0.913 |
| Company is explicitly environmentally conscious  | 50 | 3.60 | 1.212 |

 *Source: Field Survey, 2018*

The table 4.5 shows the impact of corporate governance on the performance of Nepalese commercial banks in achieving various control objectives. All of the control objectives have higher mean score that means majority of the banks believe that they are following best corporate governance practice. Moreover, majority of the banks have strongly agreed that audit committee which is chaired by a perceived genuine independent director, is the best corporate governance practice as it has highest mean i.e. 3.82. Similarly, they have also agreed that financial literacy campaign, is the best corporate governance practice which ensures the customer's awareness about banking sectors and its products and services, bank has to explicit equal employment policy, bank has to explicitly environmentally conscious, the board has not to include direct representative of the banks. However audit committee has to review work of external auditors, bank has to audit committee and remuneration committee held by a chaired independent directors, bank has to follow BASEL principles as well as rules and regulations as per NRB directives.

**4.6 Major problems of Corporate Governance on Nepalese Commercial Banks**

 Descriptive statistic of major problems of corporate governance on Nepalese Commercial Banks

Table no 4.6

|  |  |  |  |
| --- | --- | --- | --- |
| Problems | N | Mean | Rank |
| Lack of Transparency  | 50 | 2.41 | 1 |
| Lack of strict compliance | 50 | 2.94 | 2 |
| Biasness | 50 | 2.96 | 3 |
| Lack of fairness | 50 | 4.34 | 4 |
| Lack of discipline  | 50 | 4.58 | 5 |
| Lack of financial disclosure and reporting | 50 | 4.94 | 6 |
| Lack of social awareness | 50 | 5.75 | 7 |
| Fraud and scandal issues | 50 | 5.84 | 8 |

*Source: Field Survey, 2018*

In table 4.6 the descriptive statistics of major problems of corporate governance in Nepalese commercial banks has been shown. The mean score of 2.41 shows that most of the respondents strongly agrees that Nepalese commercial has lack of transparency. Moreover, lack of strict compliance and biasness has also been considered as an important corporate governance problems of Nepalese commercial banks . However fraud and scandals issues is the least important problems of corporate governance on Nepalese commercial banks as the mean score is 5.84. Moreover, lack of fairness, lack of discipline, Lack of financial disclosure and reporting and lack of social awareness are not considered much important problems of corporate governance on Nepalese commercial banks.

**4.7 Major Findings**

The following findings have been drawn based on the research of sampled banks taken under the study.

1**.** The study shows that the CV of ROE in NSBI is high among the selected banks. There is high risk associated in ROE for the shareholders of this bank. Similarly, the CV of ROE in NIBL is low among selected banks which indicate there is low risk involved in ROE of this bank.

2**.** The CV of ROA in SBI is high among selected banks. There is high risk associated with ROA of this bank. Similarly, the CV of ROA in SCBNL is lower among selected banks, which indicates there is low risk involved in ROA of selected banks.

 3**.** The CV of BS in NABIL is high among the selected banks, which indicates that there is no consistency in board members of this bank for the observed period. Similarly, the CV of BS in SCBNL is lower among the selected banks, which indicates that there is more consistency in board members in this bank than other banks for the observed period.

 4.The CV of CAR in NIBL is high among the selected banks, which indicates that there is no consistency in CAR in this bank. This means that the bank is facing problem for maintaining enough capital adequacy as per standard of Nepal Rastra Bank for the observed time period. Similarly CV of CAR of NABIL is lower among selected banks, which indicates that there is more consistency in CAR in this bank. Which means that the bank is able to maintain enough capital adequacy as per standard of Nepal Rastra Bank for the observed time period.

 5**.** The CV of NPL in NSBI is high among the selected banks, which indicates that there is no consistency in nonperforming loan of this bank. This means that the bank is suffered by non-performing loan for the observed time period. Similarly, CV of NPL of HBL is lower among selected banks, which indicates that the bank is able to manage non-performing loan than other selected banks.

6**.** The CV of LEV in SBI is high among the selected banks, which indicates that there is no consistency in leverage of this bank. This means that the bank is suffered by leverage problem during observed time period. Similarly, the CV of LEV in EBL is lower among selected banks, which indicates the bank is able to maintain its leverage position during observed time period.

**7.** The correlation analysis shows there is negative relation of ROE with other independent variables. This indicates that if BS, CAR, NPL and LEV increase then ROE decreases. Similarly, if BS, CAR, NPL and LEV decrease, then ROE increases. The correlation analysis shows there is negative relation of ROA with BS, LEV and NPL. This indicates that if BS, LEV and NPL increase then ROA decreases. Similarly, if BS, LEV and NPL decreases, then ROA increases. Similarly, there is positive relationship of ROA with CAR. This indicates that if CAR increases then ROA also increases and if CAR decreases ROA also decreases.

8**.** The regression between ROE and other independent variables are found to be insignificant. It shows that there is no significant impact of independent variables on ROE. Similarly, the regression between ROA and most of the independent variables found to be significant. It shows there is significant impact of most of the independent variables on ROA.

9. All of the control objectives have higher mean scores, which shows that all sampled commercial banks has following best corporate governance practices. All above mentioned control variables have positive influence on corporate governance practice. However, among all control objectives, financial literacy campaign, audit committee which is held by chaired independent director, independent board member which is not representative and creditors of the bank, independent management committee have strongly influenced corporate governance practice and other control objectives have also influenced corporate governance practice.

10. Most of the respondents are agreed that the major corporate governance of Nepalese commercial banks are lack of transparency, lack of strict compliance and biasness. Moreover, according to survey lack of fairness, lack of discipline, lack of financial disclosure and reporting and lack of social awareness are not major problems of corporate governance on Nepalese commercial banks. Moreover, fraud and scandals issue is least important problems of Nepalese commercial banks.

11. Mohammed Rafiaul Alam & Fahmida Akther(2017), investigates the effect of corporate governance mechanisms on performance of commercial banks in Bangladesh. In this study ROA, ROE and EPS were taken as dependent variable and Board Size, Board Independence, Internal Audit Committee and Capital Adequacy Ratio were taken as independent variables. This research is complementary to my research because the effect of independent variables to dependent variables is same as my research.

**CHAPTER V**

**CONCLUSION**

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

**5.1 Summary**

In recent years, several companies in the USA and elsewhere collapsed because of corporate governance problems and unethical practices. The objective behind corporate governance is to safeguard the interests of shareholders. Performance is compared as the profitability of the bank. Profitability is simply the difference between total revenue and total cost. The factors which affect the commercial bank performance would be those that affect the bank’s revenue and the costs. The study shows the impact of the internal and external determinants of commercial bank performance with a view to show their impact on bank’s revenue and costs. Thus, this study focuses on factors influence performance of commercial banks in Nepal.

There is huge number of commercial bank in Nepalese market. Thus, the competition is getting stiffer and, therefore bank needs to enhance their competitiveness and efficiency by improving performance. Nepalese commercial banking industry is passing through policy changes and challenges. In this study it has been used bank specific variables of BS, CAR, NPL and LEV as independent variables. Performance is measured by ROE and ROA as dependent variables.

This study attempts to explain the factors influencing the performance of commercial banks in context of Nepal. The study is based on panel data of 6 commercial banks for the period 2006/07 to 2015/16. The necessary financial data have been collected from the annual report of individual bank, Nepal Rastra Bank supervision report, SEBON, Nepal Stock Exchange (NEPSE) and the financial statement of respective banks, researches, journals, unpublished thesis reports, newspapers, Internet and Websites etc.. Data were collected form balance sheet, income statement and ratio analysis segment of annual report of the sample banks.

The study concluded that BS, CAR, NPL and LEV are the factor influencing the performance of Nepalese commercial banks. The result shows that BS has negative impact on the ROE and negative and significant impact on ROA of Nepalese commercial banks. The result also shows that CAR has negative impact on ROE and positive impact on ROA of Nepalese commercial banks. The result shows that NPL has negative and significant impact on the ROE and negative impact on ROA of Nepalese commercial bank. The result shows that LEV has negative impact on ROE and significant negative impact on ROA of Nepalese commercial banks.

All control objectives has higher mean scores which explain best corporate governance has been ensured by Nepalese commercial bank. Most of the objectives have strong influence on corporate governance practices and some others objectives also have influence on corporate governance practices.

**5.2 Conclusions**

The study shows impact of corporate governance on the performance of Nepalese commercial banks. It shows how ROE and ROA are affected by different variables. The study is based on 6 sample commercial banks. The risk per unit and total risk of ROE and ROA are different in different sample banks, which have been shown by the coefficient of variation and standard deviation respectively. The above- mentioned major findings show that the ROE has negative relationship with all independent variables i.e. BS, CAR ,NPL and LEV and ROA has negative relationship with BS, LEV and NPL and positive relationship with CAR.

From the findings it can be concluded that ROE and ROA of selected commercial banks fluctuate throughout the year from FY 2006/7 to FY 2015/16.

The study shows that most of the commercial banks are following corporate governance practices such as financial literacy program, compliance of BASEL principles, rules and regulations as per NRB directives etc.

The study shows that there are lot of problems regarding corporate governance in Nepalese Commercial Banks. Some of major problems are lack of transparency, lack of strict compliance and biasness. Moreover, lack of fairness, lack of discipline, Lack of financial disclosure and reporting and lack of social awareness are not considered much important problems of corporate governance on Nepalese commercial banks.

**5.3 Implications**

Following are the implications of this study:

a). This study deals with the ways in which supplier of finance to commercial banks assure themselves of getting a return on their investment.

b) This study discuss the corporate governance as an important mechanism in commercial banks, its necessity in the banking system, the history of corporate governance in the world as well as Nepal, best practices of corporate banking incorporated in Nepal and measures taken by various banks to implement them and the recent developments in this area in the banking sector

c) Commercial banks are important component of Nepalese economy and this study deals with the issues transparency of Nepalese commercial banks.

d) This study looks at corporate governance in the Nepalese commercial banking sector, evaluates the present state of this debate and also examines whether commercial banks needs to be looked at in isolation is relation to the question of governance.

e) As mentioned above, one of the most commonly accepted definition of corporate governance, stemming from the agency concept defines it with reference to how the equity and debt holders (the principals) can influence managers of a firm (agents) to act in the best interests of those who provided capital; and the efficiency with which the manager of a firm will allocates the resources at disposal depends to the extent to which the shareholders and creditors motivate (or rather pressurizes) them.

f) The customers of banks are recommended to receive a clear view of services provided by commercial banks. They should be aware about financial position of the commercial banks. Investor has to upgrade their knowledge regarding return from their deposit and the expenses on the loan.

g) Government should formulate and implement effective rules and regulations for gradual development of banking sector. For this purpose the banking companies should provide knowledge about banking industries to its customers.

**5.4 Recommendation for Future research**

This study has portrayed some crucial results and one avenue for future research is to extent the study to other emerging markets.

1. The result is basically from commercial banks. Thus, the future study may be incorporated developments banks and other financial institutions.
2. The study is based on primary and secondary data and doesn’t include the preference of different investors, other stakeholders. Therefore, future study may be based on using both primary and secondary data.
3. The sample size and time period taken for the study is limited so future study can be carried out by taking large sample size for longer time period.
4. Finally, future study can used some advance statistical tools e.g. non linear statistical tools and by directional causality tools.

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**Appendix II**

**Questionnaires**

Dear Sir/Madam,

I am **Santosh Baral**, MBS student of Central Department of Management, Kirtipur Kathmandu. **Research on “Impact of Corporate Governance on the Performance of Nepalese Commercial Banks”.** The purpose of my survey is to find out the impact of Corporate Governance on the performance of Nepalese commercial banks as a part of my Graduate Research Project to fulfill the course requirement of MBS, Tribhuvan University. I assure you that the survey is purely academic and confidential. I kindly request you for your valuable participation and Cooperation.

**Name …………………………………………..**

**Name of the organization…………………………..**

**Gender: - Male Female**

**Marital Status: Unmarried Married**

**Education:-**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Below +2 | +2 | Bachelor  | Master | M. Phil / PhD. |
|  |  |  |  |  |

**Length of service:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Less than 1 year | 1. 5 Years
 | 6 – 10 Years | 11- 15 Years | 15s above |
|  |  |  |  |  |

**1.** Please indicate the degree to which you agree or disagree with the statements in the following.

Please mark $√$ in the following scale on the right hand side: 1=Strongly Disagree; 2= Disagree; 3=Neutral; 4=Agree and 5=Strongly Agree.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Opinion Statement | 1 | 2 | 3 | 4 | 5 |
| Bank has conducted Financial Literacy campaign. |   |   |   |   |   |
|  Bank has followed compliance of BASEL principles as well as followed rules and regulations as per NRB directives. |   |   |   |   |   |
| Bank has an executive or management committee which is substantially different from members of the board and not believed to be dominated by referrals. |   |   |   |   |   |
| Public announcement of results have been made promptly after board meeting.  |   |   |   |   |   |
| The chairman is an independent, non executive director.  |   |   |   |   |   |
| Company has an audit committee. It is chaired by a perceived genuine independent director.  |   |   |   |   |   |
| Company has a remuneration committee. It is chaired by a perceived genuine independent director.  |   |   |   |   |   |
| External auditors of the company are in other respects seen to be completely unrelated to the company.  |   |   |   |   |   |
| The board includes no direct representatives of banks and other large creditors of the Company. (Having any representatives is a negative.)  |   |   |   |   |   |
| Audit committee nominates and conducts a proper review the work of external auditors. |   |   |   |   |   |
|  The audit committee supervises internal audit and accounting procedures.  |   |   |   |   |   |
| There are mechanisms to allow punishment of the executive/ management committee in the event of mismanagement.  |   |   |   |   |   |
|
| All the employees have access to their appraisal record.  |   |   |   |   |   |
| Company has an explicit equal employment policy.  |   |   |   |   |   |
| Company is explicitly environmentally conscious  |   |   |   |   |   |

**2.** Please rank the following eight Corporate Governance problems of Nepalese Commercial banks. Assign rank 1 to the most important, 2 to the next important... and 8 to the least important.

 a. Lack of transparency.

 b. Lack of financial disclosure and reporting.

 c. Lack of fairness.

 d. Lack of social awareness.

 e. Lack of discipline.

 f. Lack of strict compliance.

g. Fraud and scandals issues.

h. Biasness.