IMPACT OF CORPORATE GOVERNANCE

IN

PROFITABILITY OF NEPALESE BANKS

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TABLE OF CONTENT

CHAPTER-I

INTRODUCTION

1.1 Background of the study

Nepalese businesses need to move along with the world trend in running the business organizations in more systematic way adopting good corporate systems. The Company Act provides the basic corporate framework. Nepalese corporate sector needs to be more concerned and better corporate governance practice promotion needs to be studied further. Nepal needs to practice more the corporate discipline, transparency, independency, accountability, fairness and social responsibility. These not only enhance the marketability of goods and services but also in return improve leadership and demonstrate transparency and social accountability.

Nepal is in transition and there is uncertainty everywhere. Despite political chaos and poor performance of successive governments; the private sector has contributed well to save the country in many fronts. People led initiatives in education, media, industry, tourism and banking have supported and contributed in Nepal's growth as a country. The study aims to find the happenings in the good governance aspect of corporate organizations particularly in banking sector of Nepal. The banks are the service industries that deal with public money. The custodian of public money should maintain strictest discipline in its governance so that the customers can be assured of high standard of services and safety of their deposits. There should be a cordial relation and transparent communication among all the stakeholders. The employees of banks should be of high moral integrity and accountable to the customers, organization and to the nation as a whole. Those who deal with financial matters should always be careful and alert to manage high level of privacy, integrity and discipline in all fronts.

This study comes at a time when there is chaos and anarchy in every front. Many of the government organizations are almost at the verge of collapse because of poor governance and much politicization. They have failed to serve the need of people because of unnecessary political influence. Despite huge talk and tailored training programs, symposia and seminars in Nepal, good governance is still a distant implementation in government run corporate organizations. Privately run organizations like schools, banks, hospitals, industries and other ventures though have been running well; still the core values of corporate governance have not been implemented to fullest. There is a big communication gap between the Board and Management resulting in poor governance.

The study is focused on the practice of corporate governance in banking sector of Nepal. There are five categories of Banks and Financial Institutions in Nepal as envisioned by Nepal Rastra Bank. There are commercial banks categorized as

i) "A class" banks that should have minimum of 2 billion authorized and issued capital,
ii) development banks categorized as "B class" which can operate at either regional or national level depending on the capital structure
iii) finance institutions called "C class" again can operate at national or regional levels
iv) micro finance development banks called "D class" that can operate their businesses on rural and micro level
v) and there are also Nepal Rastra Bank licensed cooperatives called "E class"(NRB,2014).

There are also separate cooperatives licensed by the department of cooperatives which are many thousands in number throughout the country. The number of Bank and Financial Institutions (BFIs) is very large for the size of economy that Nepal has had. However, public level initiatives in tourism, education, media, trading etc, have helped in sustainable growth of BFIs despite slow growth pace in all other economic fronts.

Among all these different types of BFIs, this research is focused on the study of effectiveness of corporate governance in the A Class Commercial Banks of Nepal.

1.1.2 Corporate Governance

Corporate governance primarily refers to the way, approach and attitude to managing an organization. Good corporate governance refers to practicing the professionalism in governing and managing an organization. The governing body of the organization should have high integrity and business ethics while running the organization. Beside, the knowledge, competence and quality of the people at the helm and driving seat of the organization leads to the path of success. Corporate governance focuses on holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally required is accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

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

Ruin (2001) stated corporate governance as a group of people getting together as one united body with task and responsibility to direct, control and rule with authority. Hence, corporate governance as the ways and means by which the governing body of a company (the directors) is made responsible to its electorate (the shareholders). On the other hand, Low (2003) defined corporate governance as dealing with mechanisms by which stakeholders of a corporate exercise control over corporate insiders and management in such a way that their interests are protected. Corporate governance is described as the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled (http://en.wikipedia.org).

Corporate governance is defined as a system by which companies are directed and controlled (Cadbury, 1992). It consists of two components: corporate, which refers to corporations and governance, which refers to the act, fact or manner of governing (Lanno, 1999). The ultimate objective is to realise long term shareholder value, while at the same time taking into account the interest of other stakeholders.

Agency theory explains the origin of conflict and ways to minimise conflict arising between parties in a contract (Jensen & Meckling, 1976). In a company, the parties involved are owners (the principals) and managers (the agents). As stated by Jensen and Meckling (1976, p.308), a company is a 'set of formal and informal contracts under which one or more principals engage another person as their agent to perform some service on their behalf, the performance of which requires the delegation of some decision making authority to the agent'. Conflicts between managers and owners arise when they have dissimilar and contrary interests such that the acts of the managers do not meet the interests of the owners. Jensen and Meckling (1976) point out that the agents (manager in a company) are assumed to make decisions that maximize their own interests and that may not be consistent with the interests of the principals (the owners of the company). Where such conflict occurs; it results in cost to the principals and this cost is known as agency or conflict cost (Watts & Zimmerman, 1990).

Within the framework of agency theory, the need for corporate governance arise as a result of agency conflict between different parties concerned. Because of the conflict of interest as incentives for managers, return for shareholders and other resource providers, sound corporate governance mechanisms must be in place to reduce such conflict (Beasley, 1996).

As a control mechanism, Jensen (1994) outlines four basic categories of corporate governance: (1) legal and regulatory mechanisms; (2) internal control mechanisms; (3) external control mechanisms; and (4) product market competition. The current study focuses on internal control mechanisms as the corporate governance as these mechanisms are within the control of a company and can thus vary across different companies. 'The internal governance structure of a firm consists of the functions and processes established to oversee and influence the actions of the firm's management' (Davidson, Goodwin, and Kent, 2005, p.244).

The institution of governance provides a framework within which the social and economic life of countries is conducted. Corporate governance concerns the exercise of power in corporate entities. Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures of making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring and also check and balance the performance.

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

In recent years, corporate governance has received increased attention because of high profile scandals involving abuse of corporate power and in some cases, alleged criminal activity by corporate officers. An integral part of an effective corporate governance regime includes provisions for civil or criminal prosecution of individuals who conduct unethical or illegal acts in the name of the enterprise.

Proper corporate governance conducts may control and minimize the default probability as well as ensuring good performance and maintaining high firm value. As has been reviewed in Section 3.2 of company act, default risk could arise due to excess leverage, poor financial performance and weak internal control practices. Sound corporate governance via its monitoring may help to mitigate default risk.

Setting a good corporate governance policy will lead to a lot of benefits to different levels of management and helps the organization to avoid corruption and helps in enhancing the firm values, shareholders' value creation and reducing the investment and financial risks.

1.2 Statement of the problem

Corporate governance has become a topical issue at the moment. The reason behind this t gaining increasing importance in the corporate world is that; most of the organizations, especially in third world context like ours, are at rift with mismanagement, lack of corporate ethics and professionalism. The lack of corporate governance has become the root cause of failure of many organizations and hence, it is high time that all the organizations aspiring for success and survival practice good corporate governance and accord top priority to this.

Corporate governance mechanisms are related to economics and legal institution that can be altered through the political process sometimes for the better results. One could take a view that we should not worry about governance reform, since it produces result in the long run; however product market competitor would force firms to minimize costs. The investment to adopt rules, including corporate governance mechanisms enables corporations to raise external capital at the lowest cost.

Many corporate governance related problems have been well documented and can cause managers to shirk and expropriate minority shareholders and creditors taken action that maximize short term return rather than long term return (Deangel et al: 1983).

Another evidence of the economic crises in East Asia and other regions have demonstrated how macro economics difficulties can be exacerbated by a systemic failure of corporate governance stemming from weak regulatory system, inconsistent accounting and auditing standards, poor banking practices, thin and unregulated capital market ineffective oversight by corporate board of directors and little regard for the right of minority shareholders (Chomlou 2000).

In recent years, many countries have realized that good governance of corporation is a source of competitive advantage and critical economic and social progress. Therefore, it is necessary to practice the existing corporate governance more strongly in Nepalese organizations.

Corporate good governance is the life line of all the corporate organizations and it is of utmost importance in the financial organizations as they directly deal with public money and are accountable to customers. We have witnessed many cases of financial irregularities in BFIs resulting from poor governance and lack of good management. In one hand we have lack of skilled and qualified human resources and on the other hand nepotism is massive in the industry. This has resulted irregularities. Biasness against qualified and professional employees is hindering the governance and growth of the BFIs. To maintain good governance and professionalism in banks is still a challenge at present in light of above factors. This study will gain a firsthand knowledge on governance of the commercial banks and find out key components of good governance employed in these banks and recommend how good governance can be ensured in BFIs.

In current scenario, a number of BFIs are being declared troublesome by Nepal Rastra Bank and some have already been liquidated and the main reason is poor governance. Nepal Bikas Bank is the first financial institution to be liquidated and there are some more in the process which is very bad for the financial health of the nation.

The study tries to explore the roots causes of the BFIs being declared troublesome and the role of poor governance for that. The defined research questions for this study is:

- Is there any relationship between the corporate governance and Profitability of the banks?

1.3 Objective of the study

The main purpose of the study is to research how some of the representative commercial banks are working on governance issues and find out key challenges to be addressed to ensure good governance and corporate culture. The sub objectives of the study are:

- To carry out the relationship of corporate governance with different governance indicators.
- To find out the relationship between good corporate governance and profitability of the banks.

1.4 Limitation of the study

This study is entirely based on the primary data and the Samples used in the present study is limited in size. Primary data collected from various experts are based on convenient sampling. One of the major constraints of the study is reliance on opinion of the experts from different sectors. The finding derived from the opinion survey might not reveal the whole picture of Nepalese banking sector and data is confined by the responses gathered from the respondents.

1.5. Significance of the study

The corporate governance is important for mainly two aspects; financial performance and the monitoring mechanism. The main objective of this study is to focus on corporate governance system in banking sector in Nepal. Corporate governance has become a topical issue at the moment. This study provides some important information to the researchers, academicians, and practitioners. The study findings can be a very good resource to all the stakeholder of corporate governance system in Nepal. It is a scientific research work that investigates corporate governance practice in Nepal. Finding of this research can be very important to the organizations to run more effectively and systematically to improve the corporate governance performance of the organization.

1.6 Organization of the study

Present study has been organized into five major chapters, each devoted to aspects of the of corporate governance practices in Nepal. The chapter one to five consists of introduction, review of literature, research methodology, presentation of analysis of data and summary and conclusion. The rationale behind this kind of organization is to follow a simple research methodology approach.

Chapter I contains the introduction part of the study. As described above this chapter highlights the major issues to be investigated along with the general background and objectives of the study.

Chapter II includes discussion of the conceptual framework and review of major empirical work. The conceptual framework analysis and review of literature incorporated in this chapter provide a strong framework for the next chapter.

Chapter III describes the research methodology employed in this study. This chapter deals with research design, nature and sources of data, selection of organizations.

Chapter IV consists of presentation and analysis and major findings from primary data to indicate quantitative facts and to explore out more qualitative fact of corporate governance practice in Nepal.

Chapter V includes summary, recommendation and conclusion of the study. It also opens up several directions for future research.

Finally, bibliography and data collection tools have been attached as annexes.

CHAPTER-II

LITRATUE REVIEW

Review of literature is the compilation of the research that has been published on a topic by recognized scholars and researchers. The review helps in describing, summarizing, evaluating and clarifying the literature relevant to the research topic. This gives a theoretical base for the research which helps to determine the nature of research.

For this study purpose the literature is being reviewed through two angles:

- Conceptual framework
- Review of related studies

2.1 Conceptual framework

Corporate governance is “the framework of rule, relationships, system and processes within and by which authority is exercised and controlled in corporations.” It encompasses the mechanisms by which companies, and those in control, are held to account. Corporate governance is most often viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is typically central to corporate governance. Its relationship to other primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers and creditors.

Corporate governance is commonly referred to as a system by which organizations are directly and controlled. It is process by which company is concerned with the relationships and responsibilities between company’s board, its shareholders, and its stakeholders. In other words, corporate governance assures accountability and improves performance and sources of competitive advantages of a company. Corporate governance has succeeded in attracting a good deal of public interest because of its apparent important for the economic health of the corporation and society in general. Different people have come up with different definitions that basically reflect their special interest in the field which are defined below.

2.1.1 Corporate Governance

Melving Aron Eisenbery (2000), a basic premise of corporation law is that a business corporation should have as its objective the conduct of such activities with a view to enhance the corporation's profit and the gains of the corporation's owners, that is, shareholders.

Mathiesen (2002), Corporate governance is a field in economics that investigates how to secure/ motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislations. This is often limited to the question of improving financial performance for example, how the corporate owners can secure/ motivate that the corporate managers will deliver a competitive rate of return.

Marshall (1997) "A corporation is an artificial being, invisible, intangible, and existing only in the contemplation of the law. Among the most important are immortality, and, if the expression be allowed, individuality; properties by which a perpetual succession of many persons are considered the same, and may act as a single individual. Thus, Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Marshall,1997:737).

American Heritage Dictionary, "A body of persons granted a charter legally recognized term as a separate entity having its own rights, privileges, and liabilities distinct from those of its member."

Black's Law Dictionary, 6th edition 1990 "An artificial person or legal entity created by or under the authority of, the laws of a state....... The corporation is distinct from the individuals who comprise it."

[OECD April 1999] "Corporate governance is the system by which business corporations are defined and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs and the means of attaining those objectives and monitoring performance."

J. Wolfensohn (1999) "Corporate governance is about corporate fairness, transparency and accountability."

Maw et al. (1994) "Some commentators take too narrow a view, and say it (corporate governance) is the fancy term for the way in which directors and auditors handle their responsibilities towards shareholders democracy. Hence, Corporate governance as a subject, as an objective, or as a regime to be followed for the good of shareholders, employees, customers, bankers and indeed for the reputation and standing of our nation and its economy."

Governance mechanisms can be split into two categories internal corporate governance and external corporate governance. Internal corporate governance is concerned with the relationship between the management and shareholders or between corporate insider and outside shareholders. Institutional, legal and contractual arrangements of the internal corporate governance system include the right of shareholders and their protection, the composition of the boards' roles and responsibility. Internal corporate governance controls monitory activities and then takes corrective action to accomplish organizational goals e.g. monitoring by the board of directors, balance of power, and remuneration.

External corporate governance is concerned with the relationship between the company and outside stakeholders such as creditors, regulatory and legal governance system. It reinforces internal corporate governance by monitoring the efficiency of a company's investment.

2.1.2 Principle of corporate governance

The principles represent a common basis, which is considered essential for the development of good governance practices. Principles are the form of self regulation. They are indented to be concise and understandable. The OECD published its elements of corporate governance. The OECD state "The primary role for regulation is to shape a corporate governance environment compatible with societal value that allows competition and market force to work so that corporations can succeed in generating long term economic gain.” Some of the OECD principles are discussed as follows:

Rights of shareholders

The corporate governance framework should protect and facilitate the exercise of shareholders’ rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings. Basic shareholder rights include the right to:

- Secure methods of ownership registration.
- Convey or transfer shares.
- Obtain relevant information on the corporation on timely and regular basic.
- Participate and vote in general shareholder meetings.
- Elect members of the board.
- Share in the profits of the corporation.

The equitable treatment to shareholders

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholder. All shareholders should have the opportunity; obtain effective redress for violation of their rights.

The role of stakeholders in corporate governance

The framework should recognize the rights of stakeholders established by law or through mutual agreement and encourage active co-operation between corporation and stakeholders in creating wealth, job, and the sustainability financial should enterprises.

Disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation including the financial situation performance, ownership and governance of the company.

The responsibilities of the board

The corporate governance framework ensures the strategic guidance of the company, the effective monitoring and management by the board and the board's accountability to the company and the shareholder.

2.1.3 Ensuring the basis for an effective corporate governance framework

To ensure an effective corporate governance framework, it is necessary that an appropriate and effective legal, regulatory and institutional foundation is established upon which all market participants can rely in establishing their private contractual relation. This corporate governance framework typically comprises elements of legislation, regulation, self regulatory, voluntary standards, etc. in this area will therefore vary from country to country. As new experiences occur and business circumstances change, the content and structure of this framework might need to be adjusted.

2.1.4 Importance of the corporate governance

Governance has proved as issue since people began to organize themselves for a common purpose. How to ensure the power of organization is harnessed for the agreed purpose, rather than diverted to some other purpose, is a constant theme. The institutions of governance provide a framework within which the social and economic life of countries is conducted. Corporate governance concerns the exercise of power in corporate entities. Corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

However corporate governance has wider implications and is critical to economic and social well being, firstly in providing the incentives and performance measures to achieve business success, and secondly in providing the accountability and transparency to ensure the equitable distribution of the resulting wealth.

The presence of strong governance standards provides better access to capital and aide economic growth. Corporate governance also has broader social and institutional dimensions. Properly designed rules of governance should focus on implementing the values of fairness, transparency, accountability, and responsibility to both shareholders and stakeholders. In order to be effectively and ethically governed, businesses need not only good internal governance but also must operate in sound institutional environment. Therefore, elements such as secure private property rights, functioning judiciary, and free press are necessary to translate corporate governance laws and regulations into on the ground practice.

An efficient corporate governance system ensures that company is managed in a manner to increase its value to the shareholders, however within legal and contractual parameters, and helps to achieve the socially efficient resources allocation given that financial and product market relevant to the company are properly functioning as well. Corporate governance has succeeded in attracting a good deal of public interest because of apparent importance for the economic health of corporation and society in general.

Corporate governance guidelines reflect also the great importance attached by governments, business entities and communication alike to the subject. These guidelines commonly perceived that good governance is very important in assuming accountability and improving performance. The guidelines make recommendation on appropriate board structure that project the interest to the owners and reconcile them with those of management and often stakeholders including the communities within which they operate. Good governance practice enables corporations to their capital efficiency, maintain the confidence of investors and attract more patient long term capital. It enhances strategic focus, builds market confidence, community support, and is an important source of corporate competitive advantage (OECD 1999 & World Bank, 1999).

The guidelines of corporate governance aim to achieve greater transparency, fairness and hold executive management of the organization accountable to shareholders. In doing so, corporate governance plays a pivotal role in protecting shareholders and, in the meantime, duly considers the interest of the organization at large without prejudice to employees' rights. Whilst executive management should have reasonable level of power to run the business, corporate governance ensures that such powers are set to practical dimensions in order to minimize misuse of authority to serve objectives not necessarily in the best interest of the shareholders. Therefore, it provides a framework for maximizing profits, promoting investment opportunities and eventually creating more jobs.

Corporate governance has become an important issue in all industrial economies. It relates to the internal organization and power structure of the firm, the functioning of the board of directors both in the one-tier and the two-tire system, the ownership structure of the firm, and interrelationships among management, board, shareholders and possibly stakeholders, in particular the workforce of the enterprise and the creditors. These interrelationships include monitoring of the management by the board and external supervisors, and shareholders activism. An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of policies and mechanisms to ensure good behavior and protect shareholders. Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with strong emphasis on shareholders welfare. There are yet other aspects to the corporate governance subject, such as the stakeholder view, which calls for more attention and accountability to players other than the shareholders (e.g. the employee or the environment).

In Germany, corporate governance is the two-tier board of directors system. The management board is charged with managing the enterprise for the benefit of a wide array of interests. The supervisory boards whose members are elected by the shareholders at the annual meeting consist of non-management members and it appoints, supervises and advises the member of the management board on policy but does not participate in the company's day-to-day management. From the legal point of view, the supervisory board has the duty to monitor the competence of the management board. From practical point of view, it gives advice to the major policy decisions.

Corporate governance function by definition rests with the board of directors, who are elected to represent the shareholders. The board of directors should require that the management of the company fully accountable to shareholders as well as board of directors through the provision of accurate, substantive, practical and reliable information. The board of directors, which carries out the functions of strategy formulation as well as oversight of its execution and the board of corporate auditors, which audits managements' execution of business activities. The directors are entitled to govern the company, and to supervise and monitor the company's managers in order to promote effective management and ensure accountability to the shareholders.

2.1.5 The major elements of corporate governance

2.1.5.1 Board of Directors

A corporation of any size must have a board of directors elected by its shareholders while management runs the company and oversees day to day operation; the board of directors represents the interest of the corporation's shareholders by monitoring corporation's management. As representatives of the corporation's owners, the board of directors can replace a chief executive officer, approve or reject a takeover offer, determine the compensation of the CEO and other officers, select the corporation's independent auditors and rule on a number of other issues.

There are no hard and fast rules regarding the size, structure a term of office of a board of directors. The number of directors ranges in practice from 5 to 6 to as many as 15 or more directors. Boards typically establish committee to oversee different areas of responsibilities that includes nominating audit and compensation committee. In addition some corporations have governance controllers. Each committee oversees specific areas of corporate governance and reports to the board. The audit committee is concerned with the company's financial condition, internal accounting control, and issues relating to the firm's audit by independent auditors. The nominating committees' area of oversight consists of issues related to management succession, including the CEO and the composition of the board of directors. The compensation committee oversees compensation of the firm's CEO and its offices as well as directors compensation. A board will sometimes establish a forth committee. The governance committee is concerned with overseeing how the company is being run, including evaluation of both management and the board of directors. In some cases the nominating committee will evolve into a function as a governance committee.

The boards generally a) Evaluate performance of the CEO annually in meetings of independent directors, b) Link the CEO's pay to specific performance goals, c) Review and approve long range strategy and one year operating plan, d) Have a governance committee that regularly assesses the performance of the board and individual directors

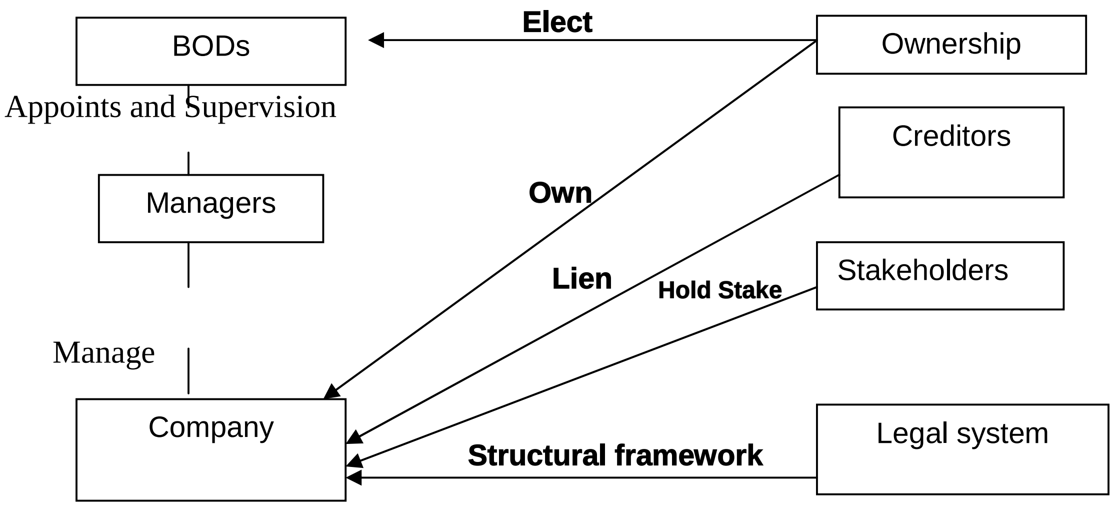
e) pay retainer fees to directors in company stock, f) Require each director to over a significant amount of company stock, g) Have no more than two or three inside directors, h) Require directors to retire at 70 years of age, i) Place the entire board up for election every year, j) Place limit at the number of other board on which its directors can see,

k) Ensure that the audit, compensation and nominating are composed entirely of independent directors, l) Ban director who directly or indirectly draw consulting, legal or other fee from the company, m) Ban interlocking directorships " I'm on your board, you're on mine."

So, the board of directors is a central factor in corporate governance because corporation laws place legal responsibility for the affairs of a company on the directors. The board of directors is legally responsible for establishing corporate objectives developing board policies and selecting top level personnel to carry out these objectives and policies. The board also reviews management's performance to be sure that the company is well run and stockholders and stakeholders interest are protected.

Figure 2.1:

System of Corporate Governance and the Board of the Directors



Source: Raju (1998)

The presented model has a corporate structure where the BODs elected by shareholder's/owners act as supervisors. The board has three functions; representation, direction and oversight. BODs appoint and supervise the managers who manage day to day company affairs. The models also clarify the boards' accountability stakeholders. The policy is framed by the board and implemented by management. The board oversees the implementation through a well designed information system. The BODs being responsible to their appointers the shareholder commits to them certain returns with the board outline of the market framework.

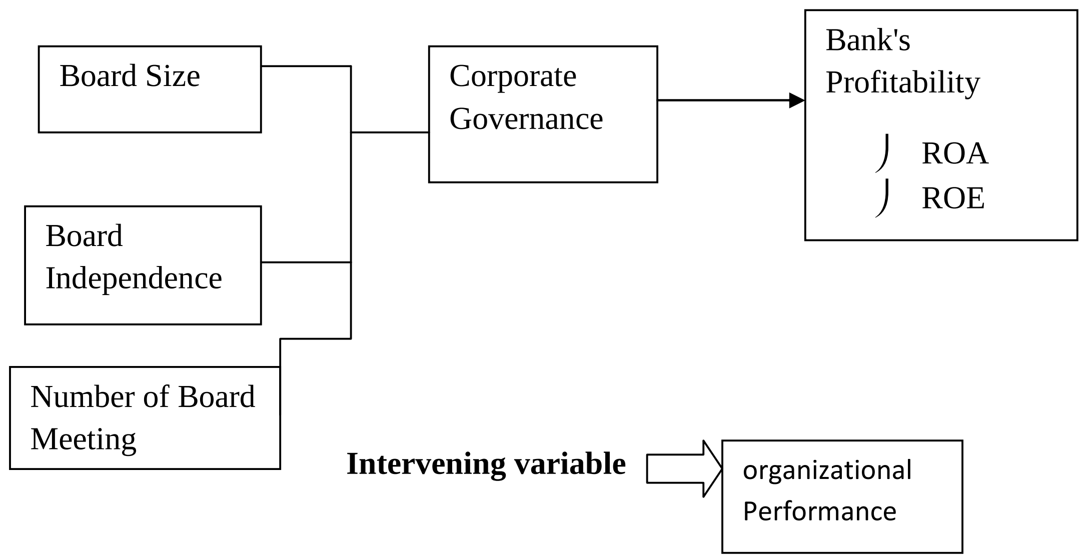
Board of directors is a group of individuals chosen by the stockholders of a company to promote their interests through the governance of the company. Board members is most legal jurisdiction have specific fiduciary duties, whereby considered good management practice to create a board of directors with persons with expertise from diverse backgrounds and to have outside directors who can provide a perspective on the situation which is independent from management.

Because of the role of directors in corporate governance and how to improve their oversight capability has been examined carefully in recent years, and new legislation in a number of jurisdiction, and an increased focus on the topic by board themselves, has seen changes implemented to try and improve their performance.

Corporate governance variables

Correlation between corporate governance and firm's profitability is shown here. Profitability is affected by governance mechanisms.

Theoretical Framework



Board size = BS

NED = number of executive director,

NID = number of independent director

NOM = number of BOD meeting in last five fiscal year

Board of directors/Size

Boards of directors may have a difficulty communicating with each other in a large sized board, which causes great detriment to firm performance. Yermack (1996), Eisenberg etal (1998) and Singh and Davidson (2003) proved that board size has a negative relation with firm performance. An effective board is crucial to the success of a company and that the board is the link between managers and investors (Lipton and Lorch (1992) and Jensen (1993).

A smaller board of directors will take the responsibility for monitoring a company's operations more than a larger board of directors. (Vaefas, 2000).

Board independence

As for the relation between board independence and firm performance, if outside directors are independent and have professional ability, they could be more objective to make decisions and monitor managers. Empirical research by Weisbach (1988),Rosenstein and Wyatt (1997) and Huson et al. (2001) corroborated that the higher ratio of independent directors accounts for boards, the better firm performance could be. It also means that if the board contains more of the executive directors, who lacks professionalism and cannot not make objective decisions and monitor managers.

Board independence is important because non executive directors are true monitors and they improve the firm profitability and discipline the management. (Duchin et al., 2010; Weishbach, 1988; Fama and Jensen, 1983).

Anandarajah,(2004)Non-executive directors increase the variety of skills and knowledge of the directors .

Awan (2012)Non Executive Directors have a positive impact on firm performance when evaluated by return on assets (ROA) and return on equity (ROE)

Based on it, this study develops the following hypothesis:

H2: *There is a significant relationship between Board Independency and the Profitability of banks*

Number of board meetings

It is assumed that regular board meetings have a positive impact on bank performance. If board meetings are held frequently, more discussions will be held on problems and prospects of business and business can be expected to run more efficiently. Based on it, this study develops the following hypothesis:

H3 : *Number of Board meetings is positively related to bank performance (Profitability of banks)*

Dependent and Independent variables

The independent variable is corporate governance which uses three measures or components which are board size and board independence and number of board meeting. The dependent variable is profitability which is evaluated through two components; return on assets (ROA) and return on equity (ROE). Beyond this non-performing loan is also considered for the profitability of the banks for the good corporate governance.

2.1.5.2 Disclosure

Corporate governance can be defined as a set of principles concerning the governing of companies and how this principle are disclosed or communicated externally. Corporate governance framework can be perceived as an institutional attempt to create a structured dialogue between companies and their shareholders and stakeholders with the aim of paving the way for understanding the company's strategic and operational goals, including critical success factors for achieving those goals.

The aim of codes is to encourage boards to explain how they direct and control their enterprise. Disclosure is as much as opportunity for company to establish their business aims and principles as a means of enhancing their accountability (Cadbury, 2002).

Disclosure standards implies to any kind of reliable information disclosed to the users of information especially to shareholders and other interested investors to understand the performance of companies that affect the capital market as the result of primary and secondary market activities (Shrestha,2005).

Disclosure of corporate information means releasing the company's financial and non financial information completely, accurately, timely and openly to shareholders and stakeholders for the purpose of enhancing their participation and protecting their benefits.

A sophisticated structure of corporate governance is the precondition for satisfactory information disclosure, however rules and governance structure is not enough to solve problem. Many companies with public companies is particular have established BOD (Board of directors), introduced outside directors are required, set up special committees and formulated rules of their own for corporate governance, and disclosed information as well information disclosure is for meeting requirements.

The disclosure should posses some qualities that satisfy users need, viz relevancy, materiality, understandability, comparability, consistency, reliability freedom from bias (Jawaharlal, 1985).

Hence, sophisticated mechanism for information disclosure is the key point for corporate governance at present. The disclosure of information is valuable for economic decision making to shareholders, lenders, employees, bankers, government, customers and general public the disclosed statement should be adequate, fair and contain full information that comprise all relevant information. The quantitative and qualitative realities are to be disclosed as per the expectation of stakeholders and statutory requirements the reports, seminars, prospectus, statement of chairman.

2.1.5.3 Annual General Meeting

All the organization must do their annual general meeting in every year. It is regular function and duties of the organization. It is a milestone for the success of organization. Organizations have seen influencing from different sectors; government, shareholders, investors, employees and other concerned group. Government and other concerned group identify the level of organization in the market through the policy, financial data and other functions, which is finished and presents in the annual general meeting (AGM).

Government can regulate to the organization/ company through its AGM creating new policy, goal, strategy and future plan. It must be regulated and evaluated by the government to give the permission for operation of the company’s activities. With the help of published data in AGM, all the related sectors of company make a decision to investment, to given loan, and to take service.

Main objectives of AGM are; a) To published annual transaction and work performance, b) To make new policy, c) To determine new goal and strategy, d) To evaluate present market, competitor opportunity, threats and way of success, e) To choose new operational committee, f) To share work performance with all the partners, g) To make a plan about dividend policy, bonus, systems, increment of capital and other internal strategy which is related to the stakeholders.

AGM make a transparency of the annual work of company. It has more power of the company. It is a powerful meeting of the company. It can do everything in company. It involves only partner who are the right to participate in annual general meeting. Other persons and group can participate in AGM as a guest.

In the AGM, the government sends their represent to help for regulation and guide for the making more transparent to the meeting. The company must take advice from the represent of the government and it should provide fact information to him.

AGM in Nepalese context

In Nepal, the government had urged with the objective of good governance, to regulate the company's activities with proper evaluation and formation of well environment in market. For those purpose securities Board of Nepal (SEBON) is the main body of the government. SEBON has the authority to evaluate, guide, and regulate to the companies. It helps to determine the level of company in market. Generally, only fifty percent companies of Nepal have been organizing their AGM in fixed time but other companies do not do. It shows that the good governance and guidance of the government of Nepal to the Nepalese companies is very poor.

2.1.5.4 Organizational Performance

In the field of organizational performance (administration), four overlapping disciplines speak to these characteristics. First, organizational culture research examines the more intangible qualities like values, behaviors, and attitudes that drive and sustain processes and decision-making. Intertwined with organizational culture, the second discipline leadership studies speak is the influence of leadership type and an individual's ability to shape culture, drive change, and manage outcomes. A third discipline, organizational development focuses on improving the functioning of organizations by applying individualized interventions and broader change processes (Rainey, 2009). Finally, strategic planning literature speaks to the importance of a specific, regimented process capable of generating commitment to vision and mission attainment (Bryson, 2004).

i) Organizational Culture

The topic of organizational culture commands attention across multiple disciplines. From psychology to sociology to anthropology to public administration, scholars and practitioners alike are interested in learning the various dimensions of culture to understand the intangible qualities affecting the effectiveness of workplace environments. Organizations develop unique cultures that ultimately impact overall agency effectiveness. This section is developed an understanding of organizational culture and effective characteristics that produce a strategic, agile agency.Culture is an abstract concept applied across multiple academic and social fields with changing contextual meanings. The rapid increase in attention paid to the subject garnered fundamental disagreements about what culture is and how it should be studied. Not only is culture difficult to definitively describe, but organizations and their leaders are in constant pursuit of a ―good or ―right or ―functionally effective culture.

Edgar Schein (2004) concurs that attempts to define culture are not only numerous but vary dramatically, leaving different ideas about what exactly ―it is. For example, the Merriam-Webster (2011) dictionary presents ten different interpretations of culture ranging from ―developing the intellectual and moral faculties to an acquaintance with and taste in fine arts‖ to ―the act or process of cultivating living material in a prepared nutrient. Despite these differences, most authors concur that the concept of organizational culture refers to the shared values, underlying assumptions, and behavioral expectations that govern decision,(Senge, 2006; Kissack& Callahan, 2009; Rainey, 2009; Cameron & Quinn, 2011). In other words, culture creates social order, continuity, and a collective identity that generates commitment to rules about ―how we do things and ―how to get the job done within organizations (Cameron & Quinn, 2011).

ii) Accepting Cultural Variation

Organizational research does reveal differences in philosophical positions regarding the variation of culture within an agency. Cultural variation commonly referred to as —integration, this perspective assumes culture is both implicitly and explicitly characterized by consistency and clarity of agency values and goals revolving around a clearly articulated vision (Frost, et al., 1991). Derived from Schein's (2004) organizational level, group members receive constant messaging regarding acceptable behaviors and responses to various situations. Through a series of case studies, Bolman and Deal (2008) support integrative perspectives and argue culture is embedded across entire organizations over time as members develop common beliefs, values and practices that are then transferred to new recruits.

Organizations can also produce multiple cultures or subcultures (Rainey, 2009). Differentiation believe organizations are comprised of coexisting subcultures that overlap to create intergroup harmony, conflict, or indifference (Martin, 2004). Additionally, consensus and clarity of norms, values, and goals largely exists within the bounds of each subculture (Frost, et al., 1991).

Schein (2004) argues each organization, at minimum, contains three subcultures among 1) front-line personnel executing tasks; 2) the subset focused on process design, innovation, and improvement; and 3) executive personnel responsible for organizational survival and long-term effectiveness. Finally, the fragmentation perspective perceives culture as more issue-specific and fragmented (Frost, et al., 1991; Martin, 2004). The underlying assumptions driving decision-making and individual behaviors are generated through a reoccurring process: a problem arises, a group reacts, and a network is developed around the issue until a new problem arises. Group norms then reorganize around the new issues (Frost, et al., 1991). In other words, issue-centric attitudes emerge and group norms are triggered by specific events or external changes influencing the primary mission of an agency and variation is likely to occur across multiple departments large public agencies and administrators due to organizational culture (Cameron & Quinn, 2011).

iii) Functioning of Strategic Organizations

Initial research priorities revolved around defining culture and identifying basic levels for understanding the phenomena. Practitioner based reports also relied heavily on individual anecdotes, personal experience, and case studies; however, as culture gained traction among scholars, theories or cultural frameworks using more robust data sets have emerged. Increased practitioner-based observation and quantitative evaluation of organizational behavior motivated scholars to document and explain organizational phenomena already occurring within agencies. While effective culture is tied to congruence with several organizational components, scholarship reveals common themes associated with the culture of more strategic and agile organizations. While non-exhaustive, this section presents the predominant organizational cultural functions present in strategic agencies.

iv) Emphasize Interrelationships

Strategic culture values two mechanisms that emphasize organizational interrelationships—systems thinking and feedback loops. First, systems-thinking enables agency members to understand the interconnectedness of individuals, workgroups, departments, processes, and organizational structures that foster increased collaboration and confidence in achieving complex objectives (Kim, 1993).

Senge (2006) interprets systems thinking as the discipline ―for seeing ―structures that underlie complex situations, and for discerning high from low leverage change. System thinking also requires purposeful communication capable of conveying circular relationships and exposing the interdependency of individual units (Argyris, 1977). Feedback loops are communication mechanisms that support systems thinking and forces critical evaluation of processes, policies, and decisions (ibid). In other words, a feedback loop is a circular communication style purposed to continually detect errors both horizontally and vertically within an agency. Both systems-thinking and feedback loop constructs disrupt status-quo patterns of thinking (mental models) providing an ability to change ―how things are always done.

2.2. Some Glimpse of Corporate Governance

2.2.1 White paper on corporate governance in Asia

The Asian roundtable and the white paper n corporate governance in Asia issued 10 June 2003 Pursuant to a G-7 mandate to the OECD and World Bank; the OECD organized five meeting of the Asia roundtable on corporate governance to discuss improving corporate governance in non-OECD member countries of the Asian region. The roundtable comprised Asian policy maker, regulators and business leaders as well as international expert. The white paper reflects the discussion and recommendation of those meeting which took place from 1999-2003 and were sponsored by the World Bank and the Asian Development Banks in partnership with government of Japan and the Global corporate governance forum. The next phase of the governance will focus on implementation and enforcement issues and culminate in two years time with a stock taking of development and progress.

Priorities for reform

Priorities 1: - Public and private sector institution should continue to raise awareness among companies, directors, shareholders and interested parties of the value of good corporate governance.

Priorities 2: - All jurisdictions should strive for effective implementation and enforcement of corporate governance law and regulation.

Priorities 3: - Asian roundtable countries should work towards full convergence with international standards and practices for accounting, audit and non-financial disclosure, where for the time being full convergence is not possible, divergence from international standards and practices should be disclosed by standards setters, company financial statement should repeat or reference these disclosure where relevant specific items.

Priority 4: - Boards of directors must improve their participation in strategy planning, monitoring of internal control system and independent review of transaction involving managers, controlling shareholders and other insiders.

Priority 5: - The legal and regulatory framework should ensure that non-controlling shareholders are protected from exploitation by insider and controlling shareholders.

Priority 6: - Government should insensibly their efforts to improve the regulation and corporate governance of bank.

The second roundtable on the Role of Disclosure is strengthening corporate governance and accountability was hosted by the Hong Kong society of Accountants. The Hong Kong securities and futures commissions and the stock exchange of Hong Kong.

The third roundtable role of Boards and Stakeholders in corporate governance was hosted by the Monetary Authority of Singapore in collaboration with Singapore Institute directors and Singapore exchange.

The fourth roundtable on share Rights and the Equitable Treatment of Shareholders was hosted by the ministry of law justice and company affaire of Government of India and the security and Exchange board of India collaboration confederation of Indian Industry.

The fifth roundtable, which includes white paper drafting sessions and a half day Workshop on Enforcement Issues, was hosted by the Malaysian securities commission in collaboration with Kuala Lumpur stock exchange and the Malaysian Institute for corporate governance.

2.2.2 Corporate and financial Government project

Nepal government assisted Asian development bank, is supporting a long term process for sustainable private and financial sector development by strengthening the basis foundations, of Nepal's corporate and financial sectors. The project was started from December 2000. It improves governance, transparency and accountability in the corporate and financial sectors. One of the components of the project is to strengthen the securities board, modernize the Nepal stock exchange, establish a central depository system and contribute to the capacity building of the company' of register office.

2.2.3 The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) and Corporate Governance

The Federation of Nepalese Chamber of Commerce and Industry (FNCCI) have been trying to promote transparency and ethical business practices. FNCCI has formed Corporate Governance Group for promoting practices of corporate governance among Nepalese firm and companies. FNCCI have been supporting the government in making necessary amendments to the law and rules which will support corporate business practices.

Nepal lever Ltd., Butwal Power Company, Nepal investment bank and Laxmi Bank has been selected for award by Best presented account on corporate governance on December 2005. There companies are awarded for maintaining good practice in preparing annual report.

2.2.4. Corporate governance practices in Nepal

Securities board, Nepal (SEBO) conducted a study on corporate governance practices in Nepal in order to assess the level of corporate governance practices covering a board range of issues such as mode of appointment of directors, involvement in other companies, ownership status and structure of board of directors, size of the board, quality discussion and decision making by the boards, delegation of authority, technical information from the directors, average time of discussion, agenda for discussion, predefined qualification and competency for board members, appointment, remuneration and evaluation or executives, corporate strategy and plan, internal control, compliance and risk management, financial report, information disclosure and transparency and continuity of business. This survey helps to understand the corporate governance practice of Nepal (SEBON,2013).

2.3Review of Related Studies

Jawaharlal(1985) depicted that a sophisticated mechanism for information disclosure is the key point for corporate governance at present. The disclosure of information is valuable for economic decision making to shareholders, lenders, employees, bankers, government, customers and general public the disclosed statement should be adequate, fair and contain full information that comprise all relevant information. The disclosure should possess some qualities that satisfy users need, viz relevancy, materiality, understandability, comparability, consistency, reliability freedom from bias.

Hermalin and Weisbach (1988) examine the determinants of board composition based on New York Stock Exchange (NYSE) traded companies. They find that firms that perform poorly tend to remove insiders and add outsiders on their boards. The replacement of insiders with outsiders may be motivated by shareholders responding to inadequate monitoring by the current board (Parker, Peter and Turetsky, 2002).

Cadbury (1992) reported that corporate governance companies should establish key board committees: audit composed of non-executive directors, responsible to the board, remuneration responsible to the board for recommending remuneration of directors, nomination a formal and transparent procedure for the appointment of new directors to the board. There should be at least three independent non-executive directors board balance should include a balance of executive/non-executive directors so that no individual can dominate the board's decision making.

Blair (1995) argued that corporate governance implicates the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated. As a result, a large proportion of the regulatory changes have focused on boards of directors.

Agrawal and Knoeber (1996) find relationships between firm performance and insider shareholdings, outside director, debt and corporate control activity whenever each of these mechanisms is included in separate regressions.

Weimer and Pape (1999) studied a taxonomy of systems of corporate governance is proposed as a remedy. The taxonomy is based upon eight characteristics; the prevailing concept of the firm, the board system, the salient stakeholders able to exert influence managerial decision making, the important of stock markets in the national economy, the presence or absent of an external market for corporate control, the ownership structure the extent to which executive compensation is dependent on corporate performance and the time horizon of economic relationship.

Koladkiewiz (2000) assumed that the past ten years have seen the foundation created for the system. The institution of the supervisory board occupies an essential position within the infrastructure developing for the capital market with such important institutions as the Securities and Exchange Commission as well as the stock market fills a significant through not yet board supporting function.

Johnson, Breach & Friedman (2000) present evidence that the weakness of legal institutions for corporate governance had an important effect on the extent of depreciations and stock market declines in the Asian crisis. They find corporate governance variables provide better explanatory power for the crisis than macroeconomic variables.

Mertzanis (2001) studied corporate governance in the business community of Greece. He outlined the general rational of corporate governance for the creation and adoption of best corporate practice. His finding presents the recommendation in full detail and finally provides suggestions for the required corporate legal reform.

Heracleous (2001) discussed research outcomes on the relationship between two such “best practices” (CEO/ chair duality and insider/outsider composition) and organizational performance and found this relationship to be insignificant.

Schilling (2001) investigated on the German corporate governance model, based on interviews with over 100 members of supervisory (Aufsichtsrat) and executive-boards (Vorstand) of major German corporation. The traditional supervisory board with its large size of 20 members, one half elected by the employees, reflects the strong consensus orientation of the German corporate world. This system worked well in times of long innovation cycles and largely separate national markets.

Parker et al., (2002) investigate the association of various corporate governance attributes and financial characteristics with the survival likelihood of distressed firms. Using a sample of US firms from the period 1988-1996, their results suggest firms that replaced their CEOs with outsiders were more than twice as likely to experience bankruptcy. On the other hand, higher levels of block holder and insider ownership are positively associated with firm survival.

Hussain and Mallin (2002) studiedthe existing state of corporate governance in a country in through Middle East Bahrain.They employ a survey methodology, with a questionnaire being sent to all companies listed to the Bahrain stock exchange market. They found that Bahrain companies have in place some of the features of corporate governance best practice with boards dominated by non-executive directors. It seems that Bahrain companies have a number of key corporate governance structural features in place but that there remainfurther progress to be made.

Gompers, Ishii and Metrick (2003) construct a ‘Governance Index’ based on 24 governance mechanisms to proxy for the level of shareholder rights in about 1500 large firms during the 1990s. They find that firms with stronger shareholder rights had higher firm value, higher profits and higher sales growth, lower capital expenditure and made fewer corporate acquisitions.

Montagon (2004) examined how and why corporate governance has come to be particular interest to investors, locating the discussion in an international context, yet focusing also on the issues raised for the UK particularly in the light of the Higgs report. It argues that observation and monitoring of corporate governance, with a concern to see well governed companies could prove a wise strategy for investors.

Parum (2004), corporate governance frameworks can be perceived as institutional attempts to create a structural dialogue between companies and their shareholders and stakeholders with the purpose of paving the way for understanding the companies’ strategic and operational goals including critical success factors for achieving those goals.

Furthermore, the findings open the way for a discussion on strategic management and transparency.

Keenan (2004) points out that the board's key tasks can be divided into three main areas: determining the strategy of the business; identification and appointment of senior management, particularly the CEO; and ensuring that the company has appropriate, adequate and relevant information, and a control and audit system is in place.

OECD (2004) studied a series of corporate scandals that had under inched confidence in the integrity of corporation, financial institution and markets. The assessment was carried out under the responsibility of the OECD steering group on corporate governance with the active participation of observers from key international institutions notably the Bank for international settlement, International Monetary fund, World Banks, financial stability forum, international organization of securities commissions and Bases committee. The basic of the report entitles corporate governance the assessment process included extensive consultations with the private sector, labor and civil society at large.

Mallin, Mullineux &Wihlborg (2005) studied the role of institutional investors, and the financial sector as a whole in corporate governance. To be affective capital markets must be efficient and competitive and auditing must be reliable current EU and US reform proposals are compared and prospects for convergence in corporate governance procedures assessed.

Cromme (2005) identified corporate governance and all its relevance in everyday use in German context. The German corporate governance codes and its role, concluding with a prospectus or future possible developments and a summary of key points.

Mintz (2005) conducted study on corporate governance system and its development as a result of cultural underpinnings, legal structures and different forms of financing business. He describes these factors in the US and UK two examples of strong shareholder ownership pattern of financing, and Germany, a country with a tradition strong creditor financing.

Ho (2005) found that firstly most international companies conform to good corporate governance practices. secondly, the higher good corporate governance practices, the stronger is the firm's competitiveness; thirdly, the relationship between corporate governance and corporate competitiveness is much stronger and finally corporate governance attributes are inter-related and it is more appropriate to pursue or study them on a collective basis.

Melvin et al (2005) described the concept of corporate governance as referring to corporate decision-making and control, particularly the structure of the board and its working procedures. It is also sometimes used very widely, embracing a company's relations with a wide range of stakeholders or very narrowly referring to a company's compliance with the provisions of best practice codes.

Nestor (2005) conducted a study on newly privatized firms that can often fall between the cracks, being at the same time more risky than SOEs (state owned enterprises) and less profitable/competitive than private firms. The main noticeable study is that minority shareholder power such as direct shareholder nomination and accumulative voting are welcome, the board needs to develop its own cohesiveness and culture and the board should conduct a regular through and independent evaluation of the CEO.

Ehikioya (2009) examines the link between corporate governance structures in Nigeria. His study uses a sample of 107 firms quoted in the Nigerian Stock Exchange for the fiscal years 1998 to 2002. His results show that ownership concentration has a positive impact on performance.

Reddy, Locke and Scrimgeour (2010) examine the effect that principles-based corporate governance practices have on firm financial performance. They measure firm performance by Tobin's Q; ratio of market value to book value of assets (MB) and return on assets (ROA). Their results show that the presence of a remuneration committee has had a positive influence on firm performance.

Devkota A (2013) concluded that there are some similarity in the issues, practices and significance of corporate governance between the financial sectors as well as ICAN. But survey on corporate governance practices shows that it is weak in Nepal. The level of corporate governance situation is still at very low ebb and it needs significant reshuffle in the prominence and implications of good corporate governance. The main reason for poor corporate governance of Nepal is lack of awareness of investors, lack of professionalism, political instability or political scenario. Similarly the majority of respondent gone the first priority to weak legal and regulatory system are the main problems to foster corporate governance practice in Nepal.

Pradhan (2014) on "Corporate Governance and Bank Performance in Nepal" stated the major indicator of board size, board independence, return on assets, return on equity, non-performing loan and board meeting. There is an evidence that return on equity can be increased by employing higher leverage and by appointing larger the number of independent directors in the board. However, there is no clear indication that larger number of board meetings would bring higher return on equity. Similarly, the larger sized board and increased board meetings would lower non-performing loans has not found.

Ghafar (2014) conducted research on "Corporate Governance and Profitability of Islamic Banks Operating in Pakistan "result revealed that the increase in board size of a bank would increase its profitability. The ratios of ROA and ROE showed a significant positive relationship with board size and tend to increase with the increase in board size. A larger board enhances the value of the bank in terms of increased profitability.

2.4 Research gap

The previous researchers had focused on corporate governance as decision making and control tool. The key variables looked at particularly were the structure of the board and its working procedures, ownership construction, cohesiveness and culture that leads to positive impact in organizational performance. Similarly, identifying BOD’s key roles like defining strategy of the business, identification and appointment of senior management particularly the CEO were looked at. Similarly, some of the researcher had depicted governance index, indicating as shareholder rights had profit higher firm issue, higher sales growth, lower capital expenditure with positive /good governance. However no previous study had tried to look at influence of corporate governance on profitability exclusively in context of A class commercial bank.

In this study, the researcher studied about the Nepalese banking sector (Class A) with three sample banks NABIL Bank Ltd, Everest Bank Ltd and Himalayan Bank Ltd. to look at influence of corporate governance in profitability. For this study, the researcher mainly relied on primary data through research questionnaire and the secondary data like financial reports, research journals, published and unpublished reports. For this study practice of corporate governance profitability is dependent variable and independent variables are BOD autonomy and it's size, (audit quality) Accounting system and disclosure financial reports, Organizational Performance, role of shareholders in selection of BOD, voting rights and legal environment. Likewise, Top level personnel opinions are evaluated to know the how they run the organization following corporate governance.

CHAPTER- IIII

RESEARCH METHODOLOGY

Research methodology can be designed as systematic process that is adopted by the researcher in studying problems with certain objectives. It is a set of a rules and procedures that are considered while conducting the research. it refers to the aggregate of the research design used, data collection techniques used, sampling design implemented, statistical tools and technique used and employed.

In this chapter, the research methodology that will be used in the study is described. The specific area where the study will conduct, sample size and data collection methods are described. The instrument used to collect the data, including methods implemented to maintain validity and reliability of the instrument are described. Mainly, this chapter will highlight the implementation process of research methodology which will generates data and the findings from this section will be analyzed further.

3.1 Research design

Research design, simply means measures for collecting, organizing, analyzing, interpreting and reporting data in research (Best & Kahn, 2007; Creswell, 2003). Creswell (2006) states that it represents different models for researching and these models have distinct means and procedures associated with it. Rigorous research designs are important because they guide the methods decisions that researchers must make during their studies and set the logic by which they make interpretations at the end of studies. Once a researcher has selected a mixed methods approach for a study, the next step is to decide on the specific design that best addresses the research problem. (Creswell, 2006, p.58).

Hence, the research design is the plan, structure and strategy of investigation conceived so as obtain answer to research question and to control variance. Questionnaire sets will be administered among conveniently selected 50 respondents from 3 sample banks.

Descriptive and analytical research approach will be adopted to conduct the study. Descriptive approach is utilized mainly to conceptualize the meaning of corporate governance. Analytical approaches will be followed mainly to analyze the practices of Corporate Governance in organization

3.2 Population

A research is made to find new knowledge and it needs a set of people as respondents and thus "Polit and Hungler" define a population as the entire individuals (or objects) having some common characteristics. The population for this particular study is 30 commercial banks,

3.3 Sample

The sample comprises the elements of the population considered for actual inclusion in the study. De Vos et al (2002:199) define sample as small portion of the total set of objects, events or persons that together comprise the subject of the study. For this study purpose a convenience and judgmental sampling procedure was used.

The researcher has chosen three commercial banks as listed below for the study, they are:

- Nabil Bank Limited- first joint venture bank in Nepal
- Everest Bank limited- bank run in the joint venture with Punjab National Bank, India.
- Himalayan Bank Limited- run by joint venture with Habib bank of Pakistan.

Below given is their net profit for last three years in Million:

Year	Nabil Bank	Everest Bank	Himalayan Bank
2015/16	2821	1730	1915
2014/15	2093	1574	1112
2013/14	2319	1549	1102

3.4 Corporate governance variables

In order to find the influence of corporate governance on default risk and ERC, several corporate governance attributes were chosen to represent the monitoring of firms' tendency to default in their debt repayments. The variables chosen to test whether corporate governance mitigates the effect of default risk on ERC are —BOD Independence and it's size, (audit quality), Number of BOD meeting mostly as independent variable and profitability as dependent variable. Similarly, accounting system and disclosure, financial reports, Organizational Performance, role of shareholders in selection of BOD, voting rights and legal environment are other variables.

3.5 Nature and sources of data

The study is based mainly on primary data. The necessary information is analyzed to find out the relationship between corporate governance and performance of the organization. The data is collected from three Banks and secondary information is derived from financial statement of the selected banks from the listed companies. Similarly, structured questionnaire is used to collect the primary data from the respondents. semi-Structured Focus Group Discussion and Key Informant's Interview was conducted amongst member of three selected banks.

Primary data

The various level of staff and board members of the listed commercial banks were the main source of primary data. It was not feasible to include total population in the study. Therefore 50 conveniently selected sample size were the key respondents from sample banks (Everest Bank Ltd/EBL, Himalayan Bank Ltd./HBL and NABIL bank ltd./NABIL). A judgmental sampling method was used to select the sample. Directors, Managers, Assistant Manager, Officer, CAs and ACCAs, and Others (investors and other exprts) are included in the focus group for this study. The informal interview is conducted with Board of Directors, Top Management and Staff and survey conducted among the shareholders and customers.

Secondary data

The secondary data was collected from the articles, publications, news, AGM minutes, regulator reports (NRB, SEBON and NEPSE), company audit report- ICRA, daily share price index and annual reports.

3.6Method of Data collection

A structured questionnaire was designed and that was administered among the purposefully selected sample. Microsoft Excel spread sheet and SPSS was used to tabulate and calculate the collected data for the purpose of analysis. Variables were properly defined and data entry was verified before the data analysis. The questionnaire was designed with the help of expert from this field. Different kinds of scales were used to develop the questionnaire.

3.7Statistical Tools

Some simple and common statistical tools such as percentages, mean have been used to analyze the primary data in the present study. The result of analysis is properly tabulated, compared, analyzed, and interpreted. Descriptive statistical tools is used. The used statistical tool is SPSS.

Percentages

In most of the cases percentage is used to identify the ratio of agreed and disagreed respondents on the issues of corporate governances. Percentage is calculated as below.

% = no. of respondents/ total no. of respondents.

Mean Rank

Mean rank is used to arrive at certain level to identify the responses of total sample. As described above, some questions were developed on the basis of Likert Scale, so to quantify those responses and to draw qualitative decisions about the corporate governance issues of Nepalese financial Institutions. Mean rank is calculated as below.

Mean rank = $\sum fx/n$

Where, f = frequency of respondents

X= rank given by the respondents and

N= total number of respondents

3.8 Analysis of data

Data analysis is the process of organizing and examining the collected data using narratives, charts, or tables. Data analysis is the processing of the information or data that has been gathered in order to draw conclusions. Hagedorn and Labovitz (1981:142) state that analyzing of the data involves both descriptive and inferential statistics. Descriptively, the data collected are summarized. After these characteristics and relations have been established for the samples, inferential statistics are used to make statements about the populations and the sample represented. Here, the researcher will analyze the outcome of data analysis with components of corporate governance and it's status using both descriptive as well as inferential statistics

3.9 Validation

Data will be validated using triangulation method. For example, result obtained from secondary data will be validated by primary data and vice versa.

3.12 Generalization

Generalization of the findings can be done on the basis of acceptance or rejection of major theories of economic integration.

Through this chapter of research methodology, research can be seen as a process of explaining the boundaries of our ignorance. The discovery and creation of knowledge, therefore, lies at the heart of research, as it is a systematic quest for discovered knowledge. Research design focuses on obtaining information regarding the activities, beliefs, preference and attitudes of people via direct questioning of a sample of respondents. And, data analysis is the process of organizing and examining the collected data using narratives, charts, or tables, also is process of gathering data to draw conclusions.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

This chapter includes data presentation and analysis. All the questionnaires were distributed and collected by the researcher himself. The collected data is analyzed using different tools and techniques. Results found from the analysis are systematically presented and carefully interpreted or explained in the following sections.

4.1.1. Nature of the Respondents

Respondents are taken from three sample commercial banks (EBL, NABIL and HBL). The tenure of the respondents and their respective gender, age, qualification, designation and experience are presented below to depict general demographic characteristics of the respondents

Table 4.1

Gender of the respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	40	80.0	80.0	80.0
Female	10	20.0	20.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

Table No. 4.1 shows that out of total 50 respondents; 40 were male and only 10 were female. With 80% male respondent and only 20% female respondent; male respondent were in majority.

Table 4.2

Age of the respondents

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Below 30 years	14	28.0	28.0	28.0
30 to 40 years	24	48.0	48.0	76.0
Above 40 years	12	24.0	24.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

Table 4.2 groups respondent's age categorized under3 levels. Below 30 years, 30 to 40 years and above 40 years. The respondents below 30 years were 28%, "between" 30 to 40 were 48% and above 40 years were12%. The majority of respondents were within the age group of 30-40 Years.

Table 4.3 presents education status of the respondents.

Table 4.3

Academic qualification of the respondents

Formal education	Frequency	Percent	Valid Percent	Cumulative Percent
Under graduate	10	20.0	20.0	20.0
Graduate	25	50.0	50.0	70.0
Master	15	30.0	30.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

Most of the respondents were graduate i.e. 50%.. Similarly, 30% of total respondents have completed master's level and only 20% are under graduate.

Table 4.4

Position or Designation of the respondents

Position	Frequency	Percent	Valid Percent	Cumulative Percent
Directors	8	16.0	16.0	16.0
Manager	17	34.0	34.0	50.0
Assistant Manager	9	18.0	18.0	68.0
Officer	8	16.0	16.0	84.0
Charter Accountant	6	12.0	12.0	96.0
Others	2	4.0	4.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

Table 4 shows the level of authority of respondents within their respective institution. The above table shows that out of total 50; 16% were directors. 34% of total respondents were of managerial level. Similarly, 18% of assistant manager level, 16% were of officer level, 12% chartered accountant and 4% were from other (professors of the university) profession. Majority of the respondents were from managerial level.

Table 4.5

The work experience of respondents in their professions

Work experience	Frequency	Percent	Cumulative Percent
Below 5 years	12	24.0	24.0
5 to10 years	23	46.0	70.0
Above 10 years	15	30.0	100.0
Total	50	100.0	

Source: Field survey 2015by using SPSS

Table No. 4.5 shows that around 24% of the respondent had work experience of below 5 years. Similarly, 46% of the respondents had work experiences of 5 to 10 years and 30% of the respondents had work experience above 10 years. Majority of the respondents had 5 to 10 years of work experience.

4.2. Awareness on Corporate Governance

Table 4.6

Awareness on Corporate Governance

Familiar	Frequency	Percent	Cumulative Percent
Very little	12	24.	24.
I am familiar	28	56	80
I can understand	8	16	96
I am expert	2	4.	100
Total	50	100.0	

Source: Field survey 2015by using SPSS

56 percent of total respondents said that they are familiar with corporate governance, 16 percent said that they can understand, 4 percent said that they are experts in this field and,

24 percent said that they understand very little about this. The majority of the respondents i.e. 56% are found to be familiar with Corporate Governance

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4.3. Opinion of Respondents on Corporate Governance

Respondents were asked a question "What is corporate governance in your opinion?" Contents of the responses were analyzed that has presented a list of responses. These lists of responses are reported in the following table.

Table 4.7

Meaning of Corporate Governance by Respondents

Responses	Number of respondent	Percentage
Professional Management	1	2
Following rules and regulations	1	2
Shareholder’s protection	1	2
All of the above	47	94
Total	50	100

Source: Field survey 2015by using SPSS

Table No. 4.7 shows that 94 percentages respondent find corporate governance includes factors like Professional management, Timely financial disclosure, Ethical business, shareholders protection following government rules and regulations and 2 percent find its more Professional management, following government rules and regulations and Shareholders protection. This reveals awareness of majority of corporate governance components among respondents.

4.4. Most important issues of corporate governance in Nepalese banking sector

Most important issues of corporate governance

Important issue	Frequency	Percent	Cumulative Percent
Professional management	12	24	24
Following rules and regulations	6	12	36
Shareholders protection	22	44	80
Accounting disclosure	10	20	100
Total	40	100	

Source: Field survey 2015by using SPSS

With respect to the important issues of the Corporate Governance 44 percent expressed that as professional management, 24 percent expressed that as protection of shareholders right and 20 percent expressed that as timely disclosure and 12 percent expressed that following rules and regulations is the most important issue of corporate governance. Majority found professional management and protection of stakeholder rights as most important aspect of corporate governance.

4.5. Important aspects to make Corporate Governance better in Nepalese banking sector

With respect to the important aspect to make better corporate governance, the majority of respondents gave first priority to professional management, second priority to timely financial disclosure, third priority to the ethical business, fourth priority to equitable treatment to shareholders and fifth priority to following government rules.

Table 4.9

Importance aspects to make better Corporate Governance Status

Important issue	Mean rank
Shareholder's protection	2.52
Following NRB directives	3.04
Timely financial disclosure	4.78
Professional management	4.92
Timely held AGM	4.96
Ethical business	5.1
Relationship of Management with minority shareholder	5.3

Source: Field survey 2015by using SPSS

Table 4.9 shows that Shareholder's protection has lowest mean rank of 2.52 among the seven important issues so, Following NRB directives has mean rank of 3.04 Timely financial disclosure has 4.78, Professional management 4.92, Timely held AGM Ethical business 5.1 Relationship of Management with minority shareholders has highest mean rank of 5.3.

4.6 Average situations in Nepalese banking sector

The respondent's view in regards to separation of role of chairman and CEO is presented in the following table.

Table no.4.10

Separation of roles of chairman and CEO

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	30	60	60	60
No	20	40	40	100.0
Total	50	100	100.0	

Source: Field survey 2015by using SPSS

With respect to the separation of roles of chairman and CEO, 60 percent of total respondents agreed while 40 percent disagreed. The majority of agreed percentage is high.

Table No 4.11

Majority of directors are non- executive

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	26	52.0	52.0	52.0
No	24	48.0	48.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

Majority of directors are non- executive and in response to that 52 percent of total respondents agreed while 48 percent disagreed. So, majority of agreement percent is higher.

Table No. 4.12

Significant number of institutional investors is there

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	18	36.0	36.0	36.0
No	32	64.0	64.0	100.0
Total	40	100.0	100.0	

Source: Field survey 2015by using SPSS

With respect to significant number of investors, majority i.e. 64% disagreed.

Table No. 4.13

The shareholder selects significant number of directors in AGM

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	21	42	42	42
No	29	58	58	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

With respect to the question whether the stakeholders select significant number of directors majority i.e. 58% disagreed.

Table No. 4.14

Good shareholder's right of voting

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	24	78	48	48
No	26	22	52	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

With respect to good shareholders right of voting 78 percent of the total respondents agreed.

Table No: 4.15

Good reporting and information system

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	44	44	44
No	28	56	56	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

With respect to observed good reporting and information system only 44% agreed. With 56% disagreeing to system of good reporting and information system in place.

Table 4.16

Timely performance report reviewed

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	20	40	40	40
No	30	60	60	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the timely performance report reviewed only 40 percent of the total respondents agreed while 60 percent disagreed. The majority of the disagreed percentage is high.

Table No 4.17

Satisfied in internal auditing and control system

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	44	44	44
No	28	56	56	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the satisfied internal auditing and control system 44 percent of the total respondents agreed while 56 percentages disagreed.

Table No 4.18

Professional management system

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	44	44	44
No	28	56	56	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the professional management system 44 percent of the total respondents agreed while 56 percent disagreed. The majority of disagreed percentage is high.

Table No 4.19

Ethical businesses

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	27	54	54	54
No	23	46	46	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the ethical business 54 percent of the total respondents agreed while 46 percent disagreed. The majority of agree percentage is higher.

Table No 4.20

Timely financial audits

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	22	44	44	44
No	28	56	56	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to timely financial audit 44 percent of the total respondents agreed while 56 percent disagreed. The majority of disagreed percentage is higher.

Table No. 4.21

Adequate financial disclosures

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	20	40	40	40
No	30	60	60	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the adequate financial disclosure 40 percent of the total respondents agreed while 60 percent disagreed. The majority of disagreed percentage is higher.

Table No. 4.22

Good legal audit system

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	24	48	48	48
No	26	52	52	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the good legal audit system 48 percent of the total respondents agreed while 52 percent disagreed. The majority of disagreed percentage is higher.

Table No. 4.23

Good organization culture

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	18	36	36	36
No	32	64	64	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the good organization culture 36 percent of the total respondents agreed while 64 percent disagreed. The majority of disagreed percentage is very high.

Table No. 4.24

Good relationship of management with shareholders

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	19	38	38	38
No	31	62	62	100
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the Good relationship of management with shareholders. Only 38 percent of the total respondents agreed while 62 percent disagreed. The majority of disagreed percentage is very high.

Table No. 4.25

Good working environments

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	26	52	52	52
No	24	48	48	100.0
Total	50	100	100	

Source: Field survey 2015by using SPSS

With respect to the Good working environments system 52 percent of the total respondents agreed while 38 percent disagreed. The majority of agree percentage is higher.

Table No. 4.26

Good enhancement opportunities to employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	24	48.0	48.0	48.0
No	26	52.0	52.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

With respect to Good enhancement opportunities to employees 48 percent of the total respondents agreed while 52 percent disagreed. The majority of disagreed percentage is higher.

4.7. Information of Nepalese banking sector related to Corporate Governance system

The statement of Nepalese banking sector related to Corporate Governance system was included in questionnaire. Five-point likert type scales were used to collect opinion of the respondents.

Table. No. 4.27

Information of Nepalese banking sector related to corporate governance

Variables	Mean rank
Managers should be from professionals; not from the investors team	4.6
Nepalese *banking sector* should cope with the changing legal environment	3.96
Nepalese *banking sector* should maintain fair accounting system and disclose financial reports timely	4.56
Nepalese *banking sector* have realization of obligation towards shareholders and other stakeholders	3.38
Good corporate governance positively effect the company 's performance	4.36
AGM should be held within stipulated time after finishing fiscal year	4.4

Source: Field survey 2015by using SPSS

The mean rank for the Managers should be from professionals; not from the investor's team is 4.6.similarly the mean rank for the Nepalese *banking sectors* should cope with the changing legal environment is 3.96 and for the Nepalese banking sector should maintain fair accounting system and disclose financial reports timely is 4.56. Nepalese *banking sector* have realization of obligation towards shareholders and other stakeholders is 3.38 Good corporate governance positively effect the company 's performance is 4.36 and finally the men rank for the AGM should be held within stipulated time after finishing fiscal year is 4.4.

4.8 Corporate governance and Profitability of banks

Under it, the respondent's view in regards to BOD size, BOD independence, number of BOD meetings and profitability of banks are presented. Similarly, ROE and ROA with corporate governance yields has been shown in the following manner.

4.8.1 Size of Board of Director's is negatively related with Profitability

The question in regards to size of BOD is negatively related with profitability or not. The view in regards to this, has been shown in the following table.

Table 4.28

Size of Board of Director

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6	6	6
	Disagree	15	30	30	36
	Neither Agree nor Disagree	7	14	14	50
	Agree	20	40	40	90
	Strongly Agree	5	10	10	100
	Total	50	100	100	

Source: Field survey 2015by using SPSS

Among the respondents, 40% respond that the size of BOD is negatively related with profitability of banks. In other words, lower the BOD, bank will generate the higher profit and vice-versa. on the other hand ,respondents strongly agree and strongly disagree about this view is 10% and 6% respectively.

4.8.2 Board of Independence is positively related with bank's profitability

The question in regards to Board of independence is positively related with profitability or not. The view in regards to this, has been shown in the following table.

Table 4.29

Board of Independence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2	2	2
	Disagree	10	20	20	22
	Neither Agree nor Disagree	8	16	16	38
	Agree	24	48	48	86
	Strongly Agree	7	14	14	100
	Total	50	100	100	

Source: Field survey 2015by using SPSS

As depicted in the table 4.29, 48% respond that the board of independence is positively related with profitability of banks. In other words, higher the BOD independence, bank will generate the higher profit and vice-versa. on the other hand ,respondents strongly agree and strongly disagree about this view is 14% and 2% respectively.

4.8.3Number of Board of meeting is positively related with bank's profitability

The question in regards to number of board meeting is positively related with bank's profitability or not. The view in regards to this, has been shown in the following table.

Table 4.30

Number of Board meeting

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	4	4	4
	Disagree	15	30	30	34
	Neither Agree nor Disagree	5	10	10	44
	Agree	22	44	44	88
	Strongly Agree	6	12	12	100
	Total	50	100	100	

Source: Field survey 2015by using SPSS

As depicted in the table 4.30, 44% respond that the number of board meeting is positively related with profitability of banks. In other words, more times the BOD meeting will yields the higher profit and vice-versa. on the other hand ,respondents strongly agree and strongly disagree about this view is 12% and 4% respectively.

4.8.4 Better corporate governance, higher ROE (Return on Equity) of banks

The question in regard to higher ROE if better corporate governance or not. The view in regards to this, has been shown in the following table.

Table 4.31

Better corporate governance yield higher ROE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2	2	2
	Disagree	12	24	24	26
	Neither Agree nor Disagree	5	10	10	36
	Agree	22	44	44	80
	Strongly Agree	10	20	20	100
	Total	50	100	100	

Source: Field survey 2015by using SPSS

As depicted in the table 4.31, 44% respond that the better corporate governance yields the higher ROE of banks.

In this view, the respondents strongly agree and strongly disagree about this view is 20% and 2% respectively.

4.8.5 Better corporate governance, higher ROA (Return on Assets) of banks

The question in regards to higher the ROA if better corporate governance or not. The view in regards to this, has been shown in the following table.

Table 4.32

Better corporate governance yield higher ROA

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	4	4	4
	Disagree	14	28	28	32
	Neither Agree nor Disagree	6	12	12	44
	Agree	20	40	40	84
	Strongly Agree	8	16	16	100
	Total	50	100	100	

Source: Field survey 2015by using SPSS

As depicted in the table 4.32, 40% respond that the better corporate governance yields the higher ROA of banks. In this view, the respondents strongly agree and strongly disagree about this view is 16% and 2% respectively.

4.8.6 Non-Performing loan is negatively related with bank's Profitability

The question in regards Non-performing loan is negatively related with bank's profitability or not. The view in regards to this has been shown in the following table.

Table 4.33

Non-performing loan is negatively related with bank's Profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6	6	6
	Disagree	16	32	32	38
	Neither Agree nor Disagree	3	6	6	44
	Agree	25	50	50	94
	Strongly Agree	3	6	6	100
	Total	50	100	100	

Source: Field survey 2015by using SPSS

As depicted in the table 4.33, 50% agree that the low non-performing loan yields the higher profitability of banks. In other words, lower the NPL higher will be profit and vice-versa. In this view, the respondents strongly agree and strongly disagree about this view is equal i.e.6%.

4.9 Descriptive Analysis of Corporate governance variables and profitability

The mean, standard deviation of corporate governance variables size of BOD, board independence, number of BOD meeting and profitability (ROE, ROA) and non performing loan are presented in the following table.

Table 4.34

Descriptive Analysis of Corporate governance variables and profitability

		Size of Board of Director	Board Independence	Number of BOD meeting	Return on Equity	Return on Assets	Non-Performing Loan
N	Valid	50	50	50	50	50	50
	Missing	0	0	0	0	0	0
Mean		3.18	3.52	3.3	3.56	3.36	3.18
Std. Deviation		1.15511	1.0349	1.14731	1.12776	1.17387	1.13731
Minimum		1	1	1	1	1	1
Maximum		5	5	5	5	5	5

Source: Field survey 2015by using SPSS

As depicted in the table 4.34, the mean respondent's of corporate governance variable is board independence which is 3.52 i.e. greater than 3 means agree view (4). Similarly, the size of BOD and number of BOD meeting yields higher profitability is agreed by respondents. on the other hand, in regards to profitability, ROE is higher than ROA while considering the respondent's view i.e. slightly higher with 3.56 agree view (4). Similarly, respondents also agree that if the non performing loan is lower that reveals the higher return i.e. profitability of the banks. By considering the fluctuation of data, ROA is more deviated and the least deviated is BOD independence among these variables.

4.10 Testing hypothesis

i. Null Hypothesis H_0 : There is no significant relationship between Board size and the Profitability of banks.

H_1 : There is a significant relationship between Board size and the Profitability of banks (ROE and ROA).

ii. H_0:There is no significant relationship between Board Independency and the Profitability of banks (ROE and ROA).

H_1:There is a significant relationship between Board Independency and the Profitability of banks (ROE and ROA).

iii. H_0: There is no significant relationship between number of BOD meetings and the Profitability of banks (ROE and ROA).

H_1 : There is no significant relationship between Board Independency and the Profitability of banks (ROE and ROA).

iv. H_0 :The corporate governance variables are uncorrelated.

H_1 :The corporate governance variables are correlated.

Table 4.35

Correlation Matrix of Corporate governance and Profitability variables

Correlations

		Size of Board of Director	Board Independence	Number of BOD meeting	Return on Equity	Return on Assets
Size of Board of Director	Pearson Correlation	1	.910**	.959**	.908**	.945**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	50	50	50	50	50
Board Independence	Pearson Correlation	.910**	1	.932**	.952**	.935**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	50	50	50	50	50
Number of BOD meeting	Pearson Correlation	.959**	.932**	1	.924**	.979**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	50	50	50	50	50
Return on Equity	Pearson Correlation	.908**	.952**	.924**	1	.939**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	50	50	50	50	50
Return on Assets	Pearson Correlation	.945**	.935**	.979**	.939**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	50	50	50	50	50

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

By testing t-paired test,

Decision: Under P value approach, dependent variable Profitability (ROE and ROA) both are correlated (significant) in all in independent variables since p value is less than significance level both 1% and 5%. For ROE, the portion of Board independence is highest and least size of BOD i.e. i.e. explained by 90.63% (0.952 ×0.952= 0.9063i.e. 90.63%) and 82.45% (0.908× 0.908) respectively and remaining by other variables/factors (unexplained factors). Similarly, For ROA, the portion of number of

BOD meeting is highest and lowest is BOD independence i.e. explained by 95.84% (0.979 ×0.979= 0.9584 i.e. 95.84%) and 87.43% (0.935× 0.935) respectively and remaining by other variables/factors (unexplained factors).

Likewise, independent variables (Size of BOD, BOD independence, number of BOD meeting are correlated since p value is .000 i.e. less than 0.01, 0.05, the variables are correlated that is accept $H_1$and reject H_0.

Thus, the result concludes that there is significant relationship between board size and profitability of banks, board independence and profitability of banks, number of BOD meetings and profitability of banks and the corporate governance variables are correlated by testing the t-paired test.

4.11. Problems of Corporate Governance in Nepalese banking sectors

Respondents were asked to assess the existing problems on corporate governance in Nepalese banking sectors. Opinions were collected and categorized. The results are presented in the following table:

Table 4.36

Problems of corporate governance in Nepalese banking sectors

	Frequency	Percent	Valid Percent	Cumulative Percent
AGM held in time	6	12.0	12.0	12.0
Treat as family business	7	14.0	14.0	26.0
Minority of shareholder issue	12	24.0	24	50.0
Running organization without policy and procedure	5	10.0	10.0	60.0
Poor transparency disclosure	6	12.0	12.0	72.0
Lack of professional management	5	10.0	10.0	82.0
Not appropriate rules and regulations	9	18.0	18.0	100.0
Total	50	100.0	100.0	

Source: Field survey 2015by using SPSS

In most of the respondent's view the main problem of corporate governance in Nepalese banking sector is minority share holders issues i.e. they are not treated in equitable basis and not appropriate rules and regulations. Another problem is treated as family business non competent family members are recruited as their staffs in most of the Nepalese banks. Another problem is AGM is not held in stipulated time after a fiscal year. Other problems are running organization without policy and procedure, poor transparency disclosure, lack of professional management, not appropriate rules and regulation.

4.12 Major Findings

- 94 percent of respondents said that corporate governance includes all the factors such as Professional management, Timely financial disclosure, Ethical business, Shareholders protection following governance rules and regulations.
- Professional management is essential in ensuring corporate governance. With respect to the separation of roles of Board of Directors and CEO, 60 percent of total respondents agreed.
- Generally, the respondents were familiar and aware with the concept of the corporate governance. With respect to meaning of corporate governance; in respondents view, it is the combination of all elements such as professional management, timely financial disclosure, ethical business, shareholders protection and following government rules and regulations.
- With respect to problems in corporate governance in Nepalese companies'; majority of respondents said that poor transparency; misuse of power, vested interest, non-equitable treatment to minority shareholders, non appropriate rules and regulations, treating organization as family business are key. Similarly not having AGM on time and lack of professional management are also affecting practice of corporate governance in banking sector.
- In regards to the important issues of the corporate governance; the majority of the respondent gives first priority to depositors and shareholders protection, second priority to professional management and third priority to timely disclosure of information. Similarly, system driven management of organization is also very crucial in practice of corporate governance.

- The mean rank for the Managers should be from professionals; not from the investor's team is highest i.e.4.6. And Nepalese *banking sector* have realization of obligation towards shareholders and other stakeholders is the least with 3.38.
- Among the respondents, 40% responded that the size of BOD is negatively related with profitability of banks. In other words, lesser the number of members in BOD, higher will be the profit and vice-versa. With higher number of members in BOD, there are chances of greater interference in management work and unanimous decision making is affected.
- 48% responded that the board independence is positively related with profitability of banks.
- 44% responded that the number of board meeting is positively related to the profitability of the banks and the better corporate governance yields the higher ROE of banks.
- The better corporate governance yields the higher ROA of banks is 40% whereas 50% agree that the low non-performing loan yields the higher profitability of banks. The key requirement for lower non-performing loan is again the effective corporate governance.
- The mean respondent's of corporate governance variable is board independence which is 3.52 i.e. greater than 3 means agree view (4). Similarly, the size of BOD and number of BOD meeting yields higher profitability is agreed by respondents. On the other hand, in regards to profitability, ROE is higher than ROA while considering the respondent's view i.e. slightly higher with 3.56 agree view (4). Similarly, respondents also agree that if the non performing loan is lower that reveals the higher return i.e. profitability of the banks. Under P value approach, dependent variable Profitability (ROE and ROA) both are correlated (significant) in all in independent variables since p value is less than significance level both 1% and 5%. For ROE, the portion of Board independence is highest and least size of BOD i.e. explained by 90.63% and 82.45% respectively and remaining by other variables/factors (unexplained factors). Similarly, For ROA, the portion of number of BOD meeting is highest and lowest is BOD independence i.e.

explained by 95.84% and 87.43% respectively and remaining by other variables/factors (unexplained factors).

- Likewise, independent variables (Size of BOD, BOD independence, number of BOD meeting are correlated since p value is .000 i.e. less than 0.01, 0.05, the variables are correlated that is accept $H_1$and reject H_0.
- In most of the respondent's view the main problem of corporate governance in Nepalese banking sector is minority share holders issues i.e. they are not treated in equitable basis and not appropriate rules and regulations. Another problem is treated as family business non competent family members are recruited as their staffs in most of the Nepalese banks. Other problems are running organization without policy and procedure, poor transparency disclosure, lack of professional management, not appropriate rules and regulation.

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as boards, managers, shareholders, and other stakeholders and spells out the rules and procedures so that corporation is operated on sound basis. Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way in which a corporation is directed, administered or controlled. Corporate governance is a multi-faceted subject. An important theme of corporate governance deals with issues of accountability and fiduciary duty, essentially advocating the implementation of policies and mechanisms to ensure good behavior and protect shareholders. Corporate governance is a key element in enhancing investor confidence, promoting competitiveness, and ultimately improving economic growth. A board of directors often plays a key role in corporate governance. It is their responsibility to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organization to its owners and authorities.

Good corporate governance is an essential ingredient in corporate success and sustainable economic growth. Good corporate governance practices will help improve the confidence of investors, reduce the cost of capital, underpin the good functioning of financial markets, and ultimately induce more stable sources of financing. Good corporate governance can bring better performance for companies because good governance structure and processes can improve decision making within the company. The good governance practices pave the way to companies to grow or attract additional investors. Sound governance practices lead to improved internal control systems which results in more accountability and higher profitability. Good corporate governance is simply about building a transparence, efficient and fair system of decision making to build a system of good corporate governance that incorporate good management- staff ties, a strong human resources, a solid accountability system and containing this within a clear, transparent legal framework.

Present study mainly aimed at analyzing the impact of corporate governance in profitability of Nepalese banks. Its specific objectives were to analyze current average situation of corporate governance practice in Nepal, to find out relationship of corporate governance with other variables and to analyze corporate governance with organizational performance. Another objective is to analyze how banks are practicing them in order to satisfy shareholders and other stakeholders.

This study covers banking sector of Nepalese organizations. This study is based on primary source of information. Survey included 50 respondents from sample banks (EBL, NABIL and HBL). They gave their response on different aspects of corporate governance practices in Nepalese banking industry. The results of respondents were analyzed to ascertain the current pace of corporate governance practice in Nepalese banks.

5.2 Conclusion

There is a doubt whether existing regulatory framework is adequate to deal with the corporate fraud or not. In Nepal also, many banking institutions have failed to maintain the corporate governance specially while lending fund or granting loan. This study on corporate governance and Profitability of banks has been undertaken through three sample i.e. leading banks (EBL,NABIL and HBL) because Nepalese banking sector has gone sweeping changes and is emerging as a major sector of the economy. For this, the dependent variables profitability (ROE and ROA) is considered with independent variables specially BOD size, board independence and number of board meeting as governance variables. Most of the respondents agree that the BOD size and non-performing loan is negatively correlated with bank's profitability whereas board independence and number of board meeting is positively correlated with bank's profitability. Thus, the result concludes that there is significant relationship between board size and profitability of banks, board independence and profitability of banks, number of BOD meetings and profitability of banks and the corporate governance variables are correlated by testing the t-paired test. Lastly, the majority of the professional management is high in important issue of corporate governance.

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QUESTIONNAIRE ON CORPORATE GOVERNANCE IN NEPALESE BANKING SECTOR

1. What is your Gender?

   a. Male
   b. Female

2. In which age group do you lies?

   c. Below 30 Years
   d. 30-40 years
   e. Above 40 Years

3. what is your academic qualification?

   a. Undergraduate
   b. Graduate
   c. Master

4. Please mention your Positions or Responsibility:

   a. Directors
   b. Manager
   c. Assistant Manager
   d. Officer
   e. Charter Accountant
   f. Others

5. How long is your Professional experience? (in year)

   a. Below 5 years
   b .5 to10 years
   b. Above 10 years

6. Are you familiar with the concept of corporate governance? How far?

c. Very little
d. I am familiar
e. I can understand
f. I am expert in this area
g. Nothing

7. What is corporate governance in your opinion?

[ ] Professional management	[ ] Timely financial disclosure
[ ] Ethical business	[ ] Shareholders protection
[ ] Following government rules	[ ] All of the above

8. What is the most important among following issues of corporate governance in Nepalese banking sector?

[ ] Following rules and regulations of

-Government -NRB directives -Professional bodies

[ ] Professional management

-BoD -Employee -Ethical business

[ ] Protection of shareholders right

-Shareholder' protection -Minority shareholder's issues

[ ] Accounting disclosure

-Timely AGM -Accounting transparency

9. Which of the following aspects are important to make better corporate governance status in Nepalese banking sector?

Assign 1 for most important, 2 for second ...and 7 to the least important.

[ ] Professional management [ ] Timely financial disclosure

[ ] Ethical business [ ] Shareholder's protection

[ ] Following government rules [ ] Timely held AGM

[ ] Relationship of Management with minority shareholder

10. Do you agree Nepalese banking sector has relatively clear mission statements?

a) Strongly disagree b) Disagree c) Neutral d) Agree e) Strongly agree

11. What is average situation in Nepalese *banking sector* in the following issues?

Do you generally agree in the following statements? Select YES or NO

Separation of roles of chairman and CEO	[ ] YES	[ ] NO
Majority of directors are non-executives.	[ ] YES	[ ] NO
Significant numbers of institutional investors are there	[ ] YES	[ ] NO
Significant number of directors are selected by outsiders	[ ] YES	[ ] NO
I experienced good shareholders' right for voting	[ ] YES	[ ] NO
I observed good reporting and information system	[ ] YES	[ ] NO
Timely performance reports reviewed	[ ] YES	[ ] NO
I am satisfied in internal auditing and control systems	[ ] YES	[ ] NO
Professional management systems	[ ] YES	[ ] NO

Ethical business [ ]YES [ ]NO

Timely financial audit [ ]YES [ ]NO

Adequate financial disclosures [ ]YES [ ]NO

Good Legal Audit system [ ]YES [ ]NO

Good organizational culture [ ]YES [ ]NO

Good relationship of Management with shareholders [ ]YES [ ]NO

Good working environment [ ]YES [ ]NO

Growth enhancement opportunities to employees [ ] YES [ ] NO

12. To what some extent do you agree in the following statements.

		Strongly Disagree	Disagree	(Neither Agree Nor Disagree)	Agree	Strongly Agree
a.	Board size is negatively related to Profitablity of bank	1	2	3	4	5
b.	BoDIndependent is positively related to bank's Profitablity.	1	2	3	4	5
c.	Number of Board meeting is positively related to bank's Profitability.	1	2	3	4	5
d.	Return on equity better if better the corporate governance	1	2	3	4	5
e.	Return on assets is higher if better the	1	2	3	4	5

	corporate governance					
f.	Non- performing loan is decreases because of the better corporate governance.	1	2	3	4	5

13. Which is the most important tool for corporate governance in order to increase bank's profitability?

    a) ROE (Return on equity)   b) Return on Assets (ROA)

    c) Non-Performing Loan (NPL)

14. What are the problems in Corporate Governance in Nepalese banking sector which leads to decrease bank's performance/.profitability?

    ………………………………………………………………………………………
    ………………………………………………………………………………………
    ………………………………………………………………………………………
    ………………………………………………………………………………………
    ……………………………

15	*Following issues are related to corporate governance system in Nepalese banking sector. Please read each of the following statement and circle at the appropriate given alternative number that comes very close to your opinion.*	**Strongly Disagree**	**Disagree**	**Neutral (Neither Agree Nor Disagree)**	**Agree**	**Strongly Agree**
a.	Managers should be from professionals; not from the investors team	1	2	3	4	5

b.	Nepalese *banking* should cope with the changing legal environment	1	2	3	4	5
c.	*Commercial banks* should maintain fair accounting system and disclose financial reports timely	1	2	3	4	5
d.	Nepalese *banking sector* have realization of obligation towards shareholders and other stakeholders	1	2	3	4	5
e.	Good corporate governance positively effect the company 's performance	1	2	3	4	5
f.	AGM should be held within stipulated time after completing fiscal year	1	2	3	4	5

…………………

Researcher

Jeevan Bhattarai

APPENDICES

Rank on aspects of corporate governance to make better corporate governance status

S. No.	Professional management	Timely financial disclosure	Ethical Business	Following NRB directives	Shareholders protection	Timely held AGM	Relationship of Management with minority shareholders
1.	2	3	7	1	4	5	6
2.	3	2	6	4	1	5	7
3.	1	5	6	2	3	7	4
4.	3	7	1	2	4	5	6
5.	2	1	4	5	6	3	7
6.	4	2	7	3	1	5	6
7.	2	4	1	3	5	6	7
8.	2	6	7	1	3	4	5
9.	2	7	6	3	1	4	5
10.	1	5	4	2	3	6	7
11.	3	1	7	2	4	5	6
12.	2	7	3	1	5	6	4
13.	1	6	7	3	2	4	5
14.	3	6	5	2	1	4	7
15.	1	4	6	3	2	5	7
16.	2	5	7	1	3	4	6
17.	2	6	1	5	3	4	7
18.	3	7	6	4	1	2	7

19.	2	5	7	3	1	6	4
20.	1	4	6	5	2	7	3
21.	2	4	6	1	3	5	7
22.	3	6	5	1	2	7	4
23.	4	1	6	2	7	5	3
24.	2	7	4	3	1	5	6
25.	1	6	5	4	3	2	7
26.	7	6	4	5	1	3	2
27.	6	7	1	4	2	5	3
28.	2	7	5	6	1	4	3
29.	1	6	2	7	3	5	4
30.	2	6	5	3	1	4	7
31.	5	6	7	1	4	2	3
32.	2	1	3	4	5	6	7
33.	2	7	4	3	1	5	6
34.	2	1	6	3	4	7	5
35.	1	3	5	4	2	6	7
36.	2	7	6	3	1	4	5
37.	1	6	2	5	3	7	4
38.	3	5	4	1	2	7	6
39.	2	5	7	6	1	4	3
40.	3	4	7	1	2	5	6
41.	2	6	5	3	1	4	7

42.	2	1	5	4	3	7	6
43.	4	7	6	1	2	5	3
44.	1	3	7	4	2	6	5
45.	2	7	5	3	1	6	4
46.	2	1	6	3	4	5	7
47.	5	7	6	1	3	2	5
48.	4	1	7	2	3	5	6
49.	2	7	4	3	1	6	5
50.	4	5	6	1	2	7	3

Professional management

Rank	Frequency	Percent	Weight
1	10	20	10
2	23	46	46
3	8	16	128
4	5	10	50
5	2	4	8
6	1	2	2
7	1	2	2
Total	50	100	246
Mean Rank			4.92

Timely financial disclosure

Rank	Frequency	Percent	Weight
1	8	16	8
2	2	4	4
3	3	6	9
4	5	10	20
5	7	14	35
6	12	24	72
7	13	26	91
Total	50	100	239
Mean rank			4.78

Ethical business

Rank	Frequency	Percent	Weight
1	4	8	4
2	2	4	4
3	2	4	6
4	7	14	28
5	9	18	45
6	14	28	84
7	12	24	84
Total	50	100	255
Mean Rank			5.1

Following NRB directives

Rank	Frequency	Percent	Weight
1	12	24	12
2	7	14	14
3	15	30	45
4	8	16	32
5	5	10	25
6	2	4	12
7	1	2	7
Total	50	100	152
Mean Rank			3.04

Shareholder's protection

Rank	Frequency	Percent	Weight
1	16	32	16
2	11	22	22
3	12	24	36
4	6	12	24
5	3	6	15
6	1	2	6
7	1	2	7
Total	50	100	126
Mean Rank			2.52

Timely held AGM

Rank	Frequency	Percent	Weight
1	0	0	0
2	4	8	8
3	2	4	6
4	11	22	44
5	16	32	80
6	9	18	54
7	8	16	56
Total	50	100	248
Mean Rank			4.96

Relationship of Management with minority shareholder

Rank	Frequency	Percent	Weight
1	0	0	0
2	1	2	2
3	8	16	24
4	7	14	28
5	8	16	40
6	11	22	66
7	15	30	105
Total	50	100.0	265
Mean Rank			5.3

Appendix-II

Managers should be from professionals; not from the investor's team

Scale	Rank	Frequency	Weight
Strongly Disagree	1	4	4
Slightly Disagree	2	0	0
Neither Agree Nor Disagree	3	0	0
Slightly Agree	4	4	16
Strongly Agree	5	42	210
Total		50	230
Mean Rank			4.6

bank should cope with the changing legal environment

Scale	Rank	Frequency	Weight
Strongly Disagree	1	3	3
Slightly Disagree	2	3	6
Neither Agree Nor Disagree	3	9	27
Slightly Agree	4	13	52
Strongly Agree	5	22	110
Total		50	198
Mean Rank			3.96

***banks* should maintain fair accounting system and disclose financial reports timely**

Scale	**Rank**	**Frequency**	**Weight**
Strongly Disagree	1	4	4
Slightly Disagree	2	0	0
Neither Agree Nor Disagree	3	1	3
Slightly Agree	4	4	16
Strongly Agree	5	41	205
Total		50	288
Mean Rank			4.56

Nepalese banking and *Banking sectors* have realization of obligation towards shareholders and other stakeholders

Scale	**Rank**	**Frequency**	**Weight**
Strongly Disagree	1	7	7
Slightly Disagree	2	11	22
Neither Agree Nor Disagree	3	5	15
Slightly Agree	4	10	40
Strongly Agree	5	17	85
Total		50	169
Mean Rank			3.38

Good corporate governance positively affect the company's performance

Scale	Rank	Frequency	Weight
Strongly Disagree	1	6	6
Slightly Disagree	2	0	0
Neither Agree Nor Disagree	3	1	3
Slightly Agree	4	6	24
Strongly Agree	5	37	185
Total		50	218
Mean Rank			4.36

AGM should be held within stipulated time after finishing fiscal year

Scale	Rank	Frequency	Weight
Strongly Disagree	1	0	0
Slightly Disagree	2	0	0
Neither Agree Nor Disagree	3	3	9
Slightly Agree	4	24	96
Strongly Agree	5	23	115
Total		50	220
Mean Rank			4.4