CHAPTER- I

INTRODUCTION

1.1 Back ground of the Study

Corporate governance 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 the others primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community.

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 also includes the relationships among the many players involved (the stakeholders) and the principal players are the shareholders, management and the board of directors, other stakeholders include employees, suppliers, customers, banks and lenders, regulators, the environment and the community at large. Corporate governance is a multi-faceted subject. An important theme of corporate governance deals with the issues of accountability and fiduciary duty, essentially advocating the implementation of policies and mechanisms to ensure good behavior and protects shareholders. Another key focus is the economic efficiency view, through which the corporate governance system should aim to optimize economic results, with a strong emphasis on shareholders' welfare. There are yet other aspects to the corporate governance. Subject, such as the stakeholders' view, which calls for more attention and accountability to players other than the shareholders (e.g. the employees or the environment).

Corporate governance deals with the complex set of relationships between the corporation and its board of directors, management, shareholders, and other stakeholders. It is the process by which company is concerned with the relationships and responsibilities between the board, management, shareholders and other relevant stakeholders within a legal and regulatory framework. In recent years, the regulators and legislators have intensified their focus on how businesses are being run. They are endeavoring to create a template for new corporate governance and governance disclosure measures, which is beneficial for both the stakeholders and controller. Corporate governance is a field in economies that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources.

Corporate governance refers to the structure and process for the direction and controlled of companies, corporate governance concerns the relationship among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing the performance of companies and increasing their access to outside capital. Corporate governance is a term that refers broadly to the rules, process, or laws by which businesses are operated, regulated, and controlled. The term can refer to internal factors defined by the officers, stockholders or constitution of a corporation, as well as to external forces such as consumer groups, clients and government regulations.

Well-defined and enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. To that end, organizations have been formed at the regional, national and global levels. Governance is concerned with giving direction and developing a control structure for the corporation i.e. what should be done and who should do it. Corporate governance is the system by which business corporation are directed and controlled.

Thus corporate governance is defined for this study as the structure and processes among the board of directors, shareholders, top management and others stakeholders and involved the roles for the stewardship process and exercising strategic leadership, and the objectives of assuring accountability and improving the performance (Organization Economic Cooperation and Development, OECD, 1999).

The OECD identified the key elements of good corporate governance as:

- Rights, obligation of shareholders.
- Equitable treatment to the shareholders.
- Role of stakeholders in corporate governance.
- Transparency discloser of information and audit.
- Boards of directors.
- Non-executives members of the boards.
- Executive management, compensation and performance.
- Honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect and commitment to the organization
- Interest of other stakeholders.

Corporate governance entails a complex web of relationship within a firm or company and its connection to outside agents. "The management labors function, technology, the owner management relationship government policies regarding the corporate sectors, financial institution the work culture, social attitudes, or any aspect of corporate life that have impact on the goal and practice of manufacturing or service firms can be bought under corporate governance umbrella" (Maskey , 2001). All of these relationships will have to be geared towards pushing firms towards a set objective in order to fulfill their respective roles.

Governance, as applied to business, is about assuring that the conduct of a corporation is carried out properly. By the term, carried out properly, we mean that the benefit of the interested parties and does not do harm to the commonweal. Interested parties are not only direct stakeholders; but also non-direct parties such as government regulatory bodies, those potentially affected by deleterious environment actions and financial activities. The bottom line is that governance covers not only the internal affairs of the company, but often farreaching external effects of corporate actions. Another aspect of governance is that its purpose is to influence results and direct activity, i.e. to give direction and control, rather then perform the activities. The later is the domain of management. Governance determines goals for corporate behavior, decides who is responsible for carrying out these goals and how enforcement should be carried out.

Corporate governance is a part of the vast field of the business ethics. It addresses the entire scope of responsibility that a company has to each of their stakeholders such as clients, employees, shareholders, suppliers and the community. Corporate governance principles must be part of the culture of the organization to make an organization effective. Conducting business and managing the company is to promote ethical and honest behavior, compliance with applicable laws and regulations, effective management of a company's resources and risk, and accountability of a person within the organization.

Principles

- Setting the division of responsibilities among management, regulatory and enforcement agencies.
- Establishing the rights of shareholders.
- Defining the role of stakeholders.
- Deciding the extent and importance of disclosure and transparency.
- Defining the responsibilities of the board.

Corporate governance system has evolved over centuries in response to corporate failure of systematic crises. The first well-documented failure of governance was the south sea bubble in the 1700s, which revolutionized business law and practice in England. Similarly, much of the securities law in the United States was put in place following the stock market crises in 1929. There has been no shortage of other crises, such as the secondary banking crises of the 1970s in the United Kingdom and U.S saving and loan debacle of the 1980s. In addition of crises of well known company failures the Maxwell group of newspaper, the collapse of the bank of credit and commerce international and bearings bank. Each crises or major corporate failure were often a result of some fraud and abuse that was met by new elements of improved corporate governance (Madgi et al: 2000). The process of continuous change in developed countries has established a complex mosaic of law, regulation, institution and implementation capacity in the government and private sector. The objective is not to shackle corporation but rather to balance the sprit to enterprises will greater accountability.

The OECD further defines good corporate governance as that which “should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.”

As mentioned above an important, but often neglected aspect of governance is that the interest of the company includes those of external entities such as regulatory authorities and the commonweal in general. The latter might include entities, which may not be directly associated with your company, but those that the activities of your corporation may affect, such as environmental groups, home owners, or social groups. In essence when you are developing a governance model, you should not limit its domain to your company and those directly related to the company. Such a narrow approach is doomed to failure or at least bad publicity or lawsuits.

The publicly owned corporation, the basic constituent of corporate society throughout the world, is actually a system corporative relationship between various stakeholders, including shareholders, management, employees, consumers, client and creditors. But shareholders in particular the providers if equity capital is given a special position. As they constitute the final risk taker of the company. They often are considered the owner of the company. The boards of the directors act as the representatives of shareholders and perform a corporate governance functions. In the sense and under the system of private ownership, shareholders are granted the right of governance over the company for the benefit of their own interest in the form of maximized return on their investment.

Shareholders elect directors of the company and they are responsible to lead a business to success. Their responsibility is to preserve and enhance the shareholders interest. There is a close relationship between the shareholders and the directors. The directors have to frame appropriate policies and monitor performance of management in implementing the policies and they represent as a board member accountable to the shareholders.

Good corporate governance is very much essential for the development of the nation and economy because good corporate governance contributes in ensuring protection of human right and work procedures that are structured to make it logical and compatible to organizational objectives. Good corporate governance is the key to the integrity of corporations, financial institutions and markets, and central to the health of our economies and their stability. Good corporate governance is one of the keys to the healthy financial markets in today’s globalised economy. Good corporate governance ensures that the business environment is fair transparent and that companies can be held accountable for their actions.

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.

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. This aside, the knowledge, competence and quality of the people at the helm of the organization to the path of success. Corporate governance is concerned with 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 to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.

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 performance.

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

For the last few years, the corporate governance has been a matter of growing academic interest in the policy studies. Given the infant stage of securities market development and gradual transformation of the external sources of corporate finance from bank to market, Nepal is passing through a transitional phase of institutional and governance reforms. The high concentration of corporate ownership structure and dominance of family business groups in corporate affairs have become major constraints in exercising good corporate governance in Nepal. Nevertheless, a number of governance reforms are underway and some positive systems have been observed in the banks and financial institutions. To ensure a good corporate governance in Nepal requires a joint effort of the investors (promoters) who need to be more transparent responsible and socially accountable; the shareholders who must actively participate in their corporate affairs to help prevent any fraudulent and insider practices and;

the regulatory authority that should effectively enforce rules and regulations in order to protect the rights of all stakeholders and create favorable environment to enhance good corporate governance culture.

Nepalese businesses have to move along with world trend running the business organizations in a systematic way adopting good corporate systems. Good corporate governance practices obviously are dependents upon those incentives and specialization and all this become more important with the growth of company. The companies Act provides the basic corporate framework. Nepalese corporate sector is more concerned and promote better corporate governance practice need to study. Nepal needs to practice the corporate discipline, transparency, independency, accountability, fairness and social responsibility. And Nepal needs to enhance the marketability of goods and services, improve leadership and demonstrate transparency and social accountability.

1.2 Statement of problems

Corporate governance has become a topical issue at the moment. The reason behind this concept gaining increasing importance in the corporate world is that most of the organizations, especially in third world context like ours, are rift with mismanagement, lack of corporate ethics and professionalism. The lack of corporate governance has become the root cause for the failure of most of the organization 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 in the long run; product market competitor would force firms to minimize costs. The cost minimization to adopt rules, including corporate governance mechanisms enables corporations to raise external capital at the lowest cost.

Corporate governance situation in the developing world has also appeared as their major challenges. In Russia, a substantive share of the profits of an oil company was siphoned off by its controlling shareholders, leaving the company in debt to its creditors, employees and the state (Magdi et al; 2002 p.2). In the Czech Republic, thousand of small shareholders lost their investment as tunneling schemes by insiders stripped private companies of their assets.

Another evidence of the economics 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 level and regulatory system, consistent 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 some countries, the brunt of the impact has been shouldered by the poor, setting bank, social and economic gains by as much as generation. In recent years, countries realize that good governance of corporation is a source of competitive advantage and critical economic and social progress. Therefore, it is necessary to access the existing corporate governance practices in Nepalese organizations.

Many corporate governance related problems have been well documented and can cause managers to shirk and expropriate minority shareholders and creditors (Jensen et al; 1976) taken action that maximize short term return rather than long term return (Deangel et al: 1983), (Murphy and et al: 1993) and make potentially unprofitable investment in order to increase the firm size and possible total compensation (Murphy: 1985, Jensen: 1986). Legal protection of the investors rights is one essential element of corporate governance concentrated ownership through large hares holding, takeover and bank financing is also a nearly universal method of control of that helps to get investors to get their money back (Shieither et al: 1997).

The problems in corporate governance are the problems of execution. There is too much rhetoric. The real question is how we handle greed before it destroys capitalism. For this we need to change our model and move it away from a box ticking approach. There is still an agreement as to whether more money is destroyed by frauds or strategy. There are many among business still not convinced about the moral angle of business. Corporate governance is not just a legal formality. It is an instrument of business and social transformation. Our biggest challenge lies in replacing greed for running the corporation to a zest for making a difference to the community. Corporate governance therefore, is an issue of the heart and not simply statutory compliance. To have the institution managed in the interest of real owners has been a challenge at all times. The question will be able to meet is effective even in the 21^{st} century?

Many firms in Nepal still couldn’t come into the corporate sector. They are family often owned and operated by inexperienced family members. Entrepreneurs play managers, accountants and other senior management roles. Organizational culture in Nepalese enterprises is to be still investigated. Companies, which are listed on the security exchange, should have professional management and adequate checks and balance in place to protect the interest of unsophisticated investors to the maximum extend possible.

Corporate governance is very weak in Nepal. Institutions suffer from unclear role and responsibilities of managerial bodies, boards, shareholders and other stakeholders. Lack of transparency in information sharing with the general public, absence of code of conduct for employees, managerial bodies, board members and stakeholders and irregularities and corruption are some of the characteristics prevalent in the financial system in Nepal.

The stumbling block for good corporate governance in Nepalese context is the lack of meritocracy corporate culture. Here, position, power and relationship matter more than quality and skills of the people. People’s contribution in the organization is not evaluated objectively. The top management prefers personal favor and undue respect from their employees rather than performance. Corporate power and politics that favor and value more to the mediocre and subservient people is very much prevalent in most of the Nepalese organizations. And, this is here to stay as most of the people who have managed to climb the ladder by applying such means do not and cannot bring about positive changes. This apparently prevents practicing good corporate governance.

The economic situation in Nepal has been adversely affected in recent years due to mostly non-economic factors. In the domestic front, the country witnessed problems of insecurity emanating from Maoist struggle, political instability and weaknesses in corporate governance poor institutional capacity. Poor transparency and accountability, inadequate legal frameworks, and weak human resources that limited the country's growth potential.

The tenacity of the leadership in defying the political odds and tensions arising from this is crucial to ensure the correct functioning of each branch of governance including the bureaucracy. Nepal as a whole has more than its fair share of problems: Maosit insurgency, Bhutanese refugees, poverty, and tribalism, partisan and weak administration, shortage of skills, low saving rates, large physical distances, poor infrastructure, weak entrepreneurial traditions, etc. The conscious or unconscious attempts of the leaders to avoid facing these issues cast a grave doubt on the country's readiness to meet the economic challenges for the 21st century. There is a huge unmeet demand for good education, especially civic education, the purpose of which is to help men and women equip themselves for life in the public realm, helps them think of public good and overcome the popular cynicism about the conditions of remoteness of the existing institutional arrangements of governance.

However, the situation prevailing in Nepalese context in this regard is not satisfactory at all. Firstly, people at the helm are either unaware of the importance of good corporate governance or are reluctant to implement this concept due to old and ossified mindset.

Though there are various studies in the context of developed and big capital market economies but the applicability is yet to be seen in the context of the smaller and underdeveloped capital markets. Realizing the important of corporate governance in financial sectors, the government of Nepal announced a strategy in 2000 that seeks to address the need for strengthen the elements of sound corporate governance in the financial sectors in Nepal. Corporate governance is one study area that couldn't be systematically studied in Nepalese context. There are many research issues in this area. Some of the very common research questions that can be derived from the existing research problems are as follows:

1. What is corporate governance system?
2. What are issues related to corporate governance systems in Nepal?
3. What are most important components of corporate governance issues in Nepal?
4. Is there any relationship between the good corporate governance and organizational performance?
5. What is comparative governance status in Nepalese corporations?
6. What are the most important factors in corporate governance system in Nepalese context?
7. Why development of corporate governance system is so important for developing country like Nepal?

1.3 Objectives of the study

The major objectives of this study are to examine corporate governance practice in Nepal. The specific objectives of this study are as follows:

1. To analyze corporate governance practice in Nepal.
2. To analyze the relationship of corporate governance with different variables.
3. To analyze the corporate governance with organization performance.
4. To evaluate good corporate governance practice in different sectors.

1.4 Limitation of the study

This study is very important but there are many limitations that are discussed below. This study is completely based on the primary data and Samples used in the present study are very small 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 and finding derived from the opinion survey might not reveal the whole picture of Nepalese sectors though data are confined by the responses gathered from the respondents.

1.5 Significance of the study

The main objective of this study is to focus on corporate governance system in Nepal. Corporate governance has become a topical issue at the moment. This study provides some important information to the researchers, academicians, and practitioners. Such information can be a very good guideline 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 might be very important to the organization to run more effectively and in systematically to improves 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 some aspects of the study of corporate governance practices in Nepal. The chapter one to five consists of introduction, review of literature, research methodology, presentation 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 mention the major issues to be investigated along with the general background and objectives of the study.

Chapter II includes a 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 deal with research design, nature and sources if data, selection of organizations, Nepalese financial institutions.

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

chapter V includes summary, recommendation and conclusion of the study. It also offers recommendation and several direction of the future research.

CHAPTER-II

LITERATURE OF REVIEW

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 reflects their special interest in the field which are defined below

2.1.1 Definitions

Melving Aron Eisenbery “The business corporation is an instrument through which capital is assembled for the activities of producing and distributing goods and services and making investments. Accordingly, 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 enhancing the corporation’s profit and the gains of the corporation’s owners, that is, the 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.”

[1997, page737] “Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.”

Chief Justice John Marshall “A corporation is an artificial being, invisible, intangible, and existing only in the contemplation of the law. Being the mere creature of the law, it possesses only those properties which the charter of its creation confess on it, either expressly or as incidental to its very existence. There are such as are supposed best calculated to effect the object for which it was created. 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.”

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. 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."

[J. Wolfensohn June 21 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. Corporate governance is a topic recently conceived, as yet ill-defined, and consequently blurred at the edges….. 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. External corporate governance controls encompass the controls external stakeholders exercise over the organization e.g. completion, debt, covenants, demand for and assessment of performance information (especially financial statements), government regulations, managerial labor market, media pressure, takeover.

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 share

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 should ensure 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

The corporate governance framework should promote transparent and efficient markets, be consistent with the rules of law clearly articulate the division of responsibility among different supervisory, regulatory and enforcement authorities.

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

2.1.5.1Board 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 oversea 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

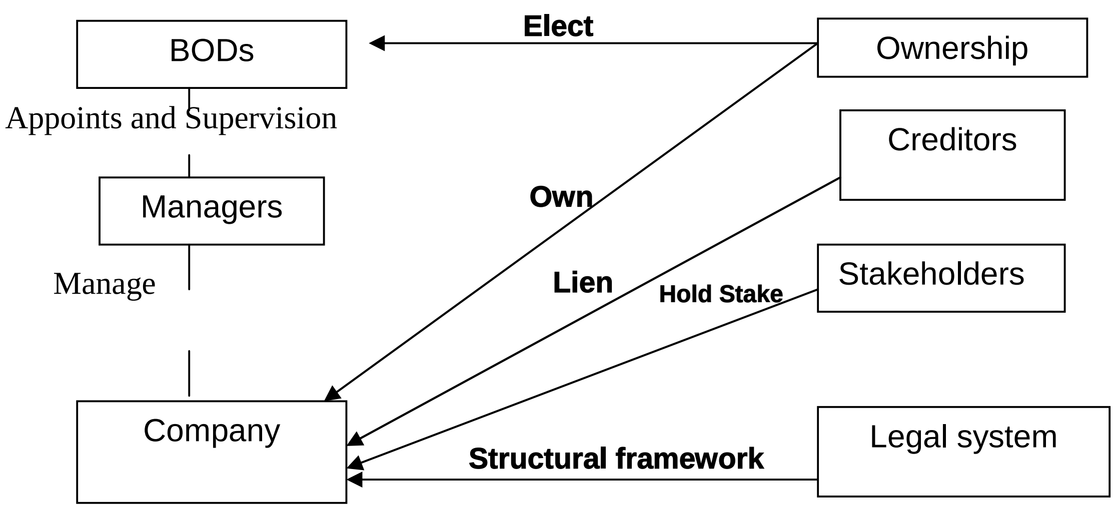
e) pay retainer fees to directors in company stock, f) Require each director to over a significant amount of company stock, g) Have no more then two or three inside directors, h) Require directors to retire at 70 years of age, i) Place the entire board up for election every year, j) Place limit at the 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 shareholders/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.

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. This helps 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.

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 quantitative and qualitative realities are to be disclosed as per the expectation of stakeholders and statutory requirements the reports, seminars, prospectus, statement of chairman. The disclosure should posses some qualities that satisfy users need, viz relevancy, materiality, understandability, comparability, consistency, reliability freedom from bias (Jawaharlal, 1985).

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.

2.2 Review of related international studies

2.2.1 International journals

Sir Adrian Cadbury former chairman of Cadbury Schweppes and the direction of the Bank of England chaired this report of the UK committee on financial aspects of corporate governance. The recommendation of the Cadbury Report influences the development of corporate governance not just in the UK, but also in many countries. The principles embodied in the Cadbury code have been adapted in countries as diverse as Russia and India. Companies should establish key board committees; audit composed of non-executive directors (NEDS), responsible to the board for recommending remuneration of directors, nomination of a formal and transparent procedure for the appointment of new directors to the board.

There should be at least three non-executive directors, board balance should include a balance of executives, non-executive directors (NEDs) so that no individual can nominate the board's decision making and separation of roles of chair (running of the board) and CEO corporate governance centered on the board of the directors.

Mallin, Mullineux, and Wihlborg (2005) studied the role of institutional investors, and the financial sector as a whole in corporate governance. Practices in "continental Europe" The UK and the US are contrasted, along with the roles of banks, strategic investors (insider), institutional investors (outsiders) and capital markets. 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.

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 lest 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.

Cromme (2005) identified corporate governance and all its relevance in everyday use in German context. Germany has experienced enormous changes in recent years, in international business, international finance and in German industrial structures. This contribution deals with recent changes in the German system of corporate governance. After a short historical review, the major elements of the international context that form the background for changes in Germany are discussed. This is followed by an explanation of the German corporate governance codes and its role, concluding with a prospectus or future possible developments and a summery of key points.

In the study of 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. This article focuses on the disclosure on corporate governance in Danish companies. It also provides evidence from the literature as well as analyses of company annual reports. Furthermore, the findings open the way for a discussion on strategic management and transparency.

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.

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. For its part the developing 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. It must be remembered however that the polish system of corporate governance is still very young and is subject to continuous transformations. To a great extent, the direction of these transformations is marked by the quest for every more effective solution in the realm of supervision whilst the pool of experience already accumulated makes possible the implementation of the selected orientation.

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. A well designed corporate governance regime is an important role to make the transition period shorter and less painful. After reviewing the partially or wholly privatized European telecom sector, the paper proposes eight lessons for policy makers in charge of designing privatization. First, where the state remains an important owner after partial privatization, it should organize its shareholder function to pursue exclusively shareholder value objectives. Second, any privatization related asymmetries between control and cash flow eight among shareholders should be limited in time and scope. Third, while same minority shareholder power such as direct shareholder nomination and accumulative voting are welcome, the board needs to develop its own cohesiveness and culture. Forth, the board should be actively and effectively involved in the development and validation of the company's strategy and the control of major transaction. Fifth, privatized firm should strive to list in the market with high and credible disclosure requirements. Sixth, privatized firms should focus on developing a disclosure culture especially as regards non-financial disclosure. Seventh, the board should conduct a regular through and independent evaluation of the CEO, based on a set of criteria and yearly objectives agreed at the beginning of each exercise.

Heracleous (2001) discussed research outcomes on the relationship between two such "best practices" (CEO/ chair duality and insider/outsider composition) and organizational performance and find this relationship to be insignificant. He propose four possibilities for this tenuous relationship that are not mutually exclusive; firstly, the possibility that “best practices” in governance are indeed irrelevant to organizational performance; secondly, that the operationalization to theoretical concepts has low face validity; thirdly, that studies are too narrow, aiming to relate board attributes directly to organizational performance and ignoring other systemic factors; and lastly, the possibility that different type of organizations require different practices in corporate governance. Finally, we address the methodological and substantive implications of each of these possibilities.

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.

Suzuki (1999) conducted research, which provides some valuable insights into corporate governance perspectives and practices in Japan. The report offers a set of principles which provides a two step formula for realizing effective corporate governance in Japan “Principles which should be adopted immediately (or as soon as possible after legal reform) are shown as step ‘A’ principle: step ’B’ principles should be aimed for early in 21st century “to illuminate the path towards the global market, but requires legal reform on a grand scale.”

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. It is coming under increasing pressure to adapt to the demands of the fast changing globalizes capital market.

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. Recommendations are made for best practices in governance. Although enhanced governance mechanisms is a sound goal to pursue, the results may be meaningless unless internal controls are strengthened and top management and the board of directors establish an ethical top at the top.

Ho (2005) conducted a study that used a survey questionnaire to corporate conditions on a holistic basis, with a sample of international companies. His findings provide strong evidence that firstly most international companies conform to good corporate governance practices secondly, the higher such conformance is to good corporate governance practices, the stronger is the firm’s competitiveness; thirdly, the relationship between corporate governance and corporate competitiveness is much stronger when corporate governance is evaluated on a holistic basis than on an individual dimension or attribute; and finally corporate governance attributes are inter-related and it is more appropriate to pursue or study them on a collective basis.

Ownership and control are always separated. A large block of shares may give effective control each when there is no majority owner. For example, Bill Gates owns over 20 percent of Microsoft. Barring some extreme catastrophe, that block means that he can run the company as he wants to and as long as he wants to ‘Henry Ford’s descendants still hold a class of Ford Motor company shares with extra voting rights and there by retain great power should they decide to exercise it.

Nevertheless the concentration of ownership of public US Corporation is much less than in some other industrialized countries. The differences are not so apparent in Canada, Britain, Australia and other English speaking corporate governance refers to the role of the board of directors, shareholders voting, proxy fights, and other actions taken by shareholders to influence corporate decisions. Economists use the term governance more generally to cover all the mechanisms which manager's are led to act in the interests of the corporation's owners. A perfect system of corporate governance would give managers all the right incentives to make value maximizing investment opportunities. It would give managers and employees fair compensation but prevent excessive perks and other probate benefits.

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. Leading business and labor representatives, notably the business and Industry Advisory committee to the OECD and the Trade Union Advisory committee to the OECD also participated in the steering group meeting on an adore basic. The steering group sent a questionnaire to member countries requesting information about corporate governance issues, the forces at work and proposed policy measures. The responses together with are view of practices in OECD member countries formed the basic of the report entitles corporate governance the assessment process included extensive consultations with the private sector, labor and civil society at large.

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.

Hussain and Mallin (2002) studied Bahrain companies have in place some of the features of corporate governance best practice with boards dominated by non-executive directors. For example the separation of the roles of chain and CEO however it is not clear how effective the nomination appointment process is and director tend to be fairly entrenched, in term of risk management control overall, it seems that Bahrain companies have a number of key corporate governance structural features in place but that there remain further progress to be made. They analyzed the 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.

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, 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. 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 quantitative and qualitative realities are to be disclosed as per the expectation of stakeholders and statutory requirement the reports, seminars, prospectus, statement of chairman. The disclosure should possess some qualities that satisfy users need, viz relevancy, materiality, understandability, comparability, consistency, reliability freedom from bias (Jawaharlal: 1985).

2.2.2 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 forth 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.

2.3 Review of Nepalese research studies and activities

2.3.1 Seminar on corporate governance in Nepal

Corporate governance is an area of great importance for all financial and real sector institutions, opined experts during a seminar on 'Good corporate governance means good business' Organized jointly by Nepal Stock Exchange (Nepse) and International Finance Corporation (IFC), the private sector arm of the World Bank Group. The seminar provided an opportunity for those in the field of corporate governance to share their thoughts and perceptions of how to face great challenges in safeguarding shareholders and other stakeholders' rights. The seminar provided the platform to discuss challenges faced by Nepalese companies for example lack of trained manpower, infrastructure and political influences. The seminar provided to be an interface among key policy maker of Government, corporate executives, representatives of federation and chambers of business and industry, international organizations, national institutions, academicians and media person. This was useful for analyzing the conditions of corporate governance system in Nepal. The main objective of the seminar was to share the experiences and the status of corporate good governance practices in Nepal. Seminar also discussed not just about the sound investment decisions but also taking and managing risks and dealing with economic uncertainties.

2.3.2 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.

2.3.3 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.

2.3.4 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.

2.3.5 Articles published in corporate governance

Corporate governance in shamble

In the issue of corporate governance article published on “Himalayan Times” on June 11, 2009 on topic corporate governance in shambles. The article discussed on Nepalese corporate governance system in banking and other financial institutions of Nepal. It discussed how bad the situation is due to lack of good corporate governance system between board members and management. The article discussed for e.g. how Nepal Rastra Bank (NRB) had to take over the (Bok) Bank of Kathmandu’s board for short period of time due to dispute in the Bok’s board. It is the result of lack of internal good governance. Thus, article mentioned that the financial institutions should be more transparent, follow prudent norms and practice good internal governance. Otherwise, people will lose confidence in the financial sector itself. However, increasing number of financial institutions has also forced the Nepal Rastra bank (NRB) to enhance its supervisory and regulatory capacity. It should take immediate action against bad institutions to safeguard the good ones, their depositors and shareholders and prevent such a dire scenario. Only in this way can the vibrant health of the financial sector be ensured and its role as the driver of the national economy realized.

In today’s context is the Nepali companies need to go global by maintaining disclosure to the shareholders, investors and other concerned agencies which will help in improving corporate governance.

Good Corporate Governance

Shrestha has issued the good corporate governance in the article. In his article he addressed corporate governance has become a topical issue at the moment. The reason behind this concept gaining increasing importance in the corporate world is that most of the organizations, especially in third world context like ours, are rife with mismanagement, lack of corporate ethics and professionalism. The lack of corporate governance has become the root cause for the failure of most of the 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 primarily refers to the way, approach and attitude to managing an organization. Good corporate governance refers to practicing true professionalism in governing and managing an organization. The governing body of the organization should have high integrity and business ethics, while running the organization. This aside, the knowledge, competence and quality of the people at the helm of the organization mater most to ensure good corporate governance. They should be able and visionary leaders to steer the organization to the path of success.

Good corporate governance can bring better performance for companies because good governance structures and process can improve decision making within the company. Good corporate governance can improve access to capital for companies. Much of the attention to corporate governance issues in emerging markets has focused on the role governance can play in improving access for emerging market companies to equity capital, whether from domestic or international sources. An increasing volume of empirical evidence also indicates that well-governed companies receive higher market valuations. Improving corporate governance can also increase the flow of debt financing to companies in developing countries, whether from domestic, international, private or public sources. Better corporate governance leads to transparency and better disclosure, thus providing the opportunity to establish relationships with all stakeholders in fair and more productive terms. Promoting good corporate governance helps develop deeper and broader capital markets over time.

Good corporate governance ensures that the business environment is fair transparent and that companies cab be held accountable for their actions. Conversely, weak corporate governance leads to waste, mismanagement, and corruption. It is also important to remember that although corporate governance has emerged as a way to manage modern joint stock corporation, it is equally significant in state-owned enterprises, cooperative, and family businesses. Regardless of the type of venture, only good governance can deliver sustainable good business performance.

While the lack of good corporate governance in Nepal is a known phenomenon, there are of late certain efforts being made in this direction. Nepal Rastra Bank, the central bank of the country has recently issued a directive relative to Good Corporate Governance to commercial banks. The directive has spelt out the details of dos and don'ts to ensure good corporate governance in the banking sector. While this is certainly a welcome and timely step taken by this government body, this is not enough. What is more important is that NRB itself should first epitomize this before it asks others to do the same. And, equally important thing is to have an effective and strong monitoring system to ensure effective implementation of the directives.

2.3.6 Nepalese Companies awarded for Corporate Governance

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.

2.3.7 Review of previous thesis

Devkota A (2005) his study on "Corporate Governance in Financial Sectors in Nepal" mentioned major finding led to conclude 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. Nepal Rastra Bank, the supervisory authority of the financial sector in the country came up with some specific regulation towards maintenance of good corporate governance in the banks and financial institutions. The reason for poor corporate governance of Nepal is lack of awareness of investors.

Survey on corporate governance practices shows that corporate governance practices is weak in Nepal. 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. Securities Board of Nepal and NEPSE Ltd. as the regulatory body are more responsible for promoting good corporate governance. However within Nepalese enterprises, banking/financial sector has good corporate governance practices. Corporate governance can be improved significantly, if employees are made participate in decision-making.

2.3.8 Research gap

In this study researcher studied about the different sectors to have corporate governance practice which included almost all the sectors of Nepalese organization. Researcher couldn't find any systematic study carried out on this topic in Nepalese context. Top level personnel opinions are evaluated to know the how they run the organization with good corporate governance.

CHAPTER – III

RESEARCH METHODOLOGY

Present study aims to investigate the current situation of corporate governance in Nepalese organizations. Corporate Governance is getting popularity in the recent years. Corporate governance is highly appealing field of economic. The governance of corporation is as important in the world economy as government of countries. Corporate Governance deals with total management of the organizations. It especially focuses on how an organization is managed by board of directors to the shareholders and other stakeholders. Corporate governance is about performance. Corporations must deliver good results not only to the shareholders, but also to all the stakeholders, the community, the society, and the economy as a whole. This study mainly focuses on the practice of Corporate Governance in the Nepalese organizations as well as to know the problems facing by them.

Primary data are used in this study. Suitable tools and techniques are used for analysis. Following section deals about research design, sources of data, sample and population of survey design, nature of data, data collection methods and procedure, instruments and tools or techniques used for the analysis.

3.1 Research design

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 were administered among conveniently selected 50 respondents. Descriptive and analytical research approach is adopted to conduct the study. Descriptive approach is utilized mainly to conceptualized meaning of corporate governance. Analytical approaches have been followed mainly to analyze the practices of Corporate Governance in organization.

3.2 Nature and sources of data

The study is based on primary data. The necessary information are analyzed to find out the relationship between corporate governance and performance of the organization. The data were collected from Security Board Nepal and derived from financial statement of the selected companies from the listed companies. Similarly, structured questionnaire were used to collect the primary data from the respondents. Structured questionnaires were distributed in different selected organizations. Primary information was collected from academicians, researchers, and practitioners. Focus group study design was followed to collect the data. Mainly, the performance and the banks, finance companies, Insurance companies, manufacturing company, trading companies and other experts (professors of academic field) are the main sources of the data for primary data collection.

3.3 Population and sample

Primary data

Top-level managers of the listed financial institutions in security exchange limited and selected academicians or researchers were taken as the population of the primary information source. It is not feasible to include total population in the study. Therefore 50 conveniently-approached respondents were taken for this study from different organization like banks, finance companies, insurance companies etc. 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.

3.4 Method of Data collection

A structured questionnaire was designed and that was administered among the judgmentally selected sample. Microsoft Excel spread sheet and 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. Structured questionnaire was used as a data collection instrument. The questionnaire was designed with the help of expert of this field. Different kinds of scales were used to develop the questionnaire. Item numbers 1,2,3,6 and 8 are designed in nominal scale, item numbers 4, 5, and 7 are designed in ordinal scale, in which respondents have to rank according to their importance. Item 9 is yes-No type question. Item 10 is designed in open-ended form and they can give different kinds of views regarding problems of corporate governance practices in Nepalese financial institutions. Items 11 is 5 point Likert Scale, where 1 for strongly disagrees, 2 for slightly disagree, 3 for neither agree nor disagree, 4 for slightly agree, and 5 for strongly agree. Few demographic variables such as gender, profession, position or responsibility, formal education, professional education and age of the respondents were included in the instrument.

3.5 Primary Data Collection Procedure

Structured questionnaire was used to collect the opinion of 50 respondents of different organizations. Questionnaires were administered and return in 15 to 20 minutes. Researcher personally visited the entire respondent in different organization. In most of the cases, meaning of the items and instruction to fill the questionnaire were described to the respondent.

3.6 Statistical 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 have been properly tabulated, compared, analyzed, and interpreted. Chi-square testing was done for the purpose of testing the difference or indifference with respect to opinion of respondents on various issues of corporate governance. Descriptive statistical tools were not used. The used statistical tools are

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. Percentages is used to

% = 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

Chi-square Testing

For the purpose of testing the consistency of the information following hypothesis was developed

H0: the perception of the respondents on various issues of corporate governance is indifference

H1: the perception of the respondents on various issues of corporate governance is not indifference.

The calculated value of chi-square is calculated as follows

Chi-square $=\sum (O-E)^2/E$

Where,

O= observed Frequency

E=RT*CT/GT

RT= Row Total

CT = Column Total

GT= Grand Total

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

4.1 Needs and application of primary research

The researcher felt that secondary data cannot fulfill the research objectives. The previous chapters incorporated introduction of study, review of the literature and research methodology employed in the study respectively. This chapter includes data presentation and analysis. The data and information collected from the respondents are presented and analyzed according to response of respondents on the stratified sampling. All the questionnaires were distributed and collected by the researcher herself. The collected data were analyzed using different tools and techniques. Results found from the analysis were systematically presented and carefully interpreted or explained in the following sections.

4.1.1. Nature of the Respondents

Respondents are from different professional sectors. Some are from commercial banks, development banks, insurance companies, cooperative banks, investment banks and others experts are from academic sectors (professors and lecture). Following table presents the tenure of the respondents in their respective profession.

Table 4.1

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	

Appendix-1

Table No. 4.1 shows that around 24%of the respondent had work experience of below 5 years. Similarly 46% of the respondents had work experiences profession of 5 to 10 years and 30%of the respondents have work experience above 10 years. Out of 50 total numbers of respondents' highest frequencies of respondents is comprised to 46% who have work experience between 5 to 10 years. Respondent's designation of position is presented in the following table.

Table 4.2

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	

Appendix-1

In table No. 4.2 we have taken chairman, managing directors, Directors, deputy directors, assistant directors, in directors' category. The above table shows that 8 respondents are directors who have 16% in total respondents in different organization. 17 respondents are Managers level have 34% of total respondents. Similarly 9 Assistant managers level have 18%, 8 officers who have 16% in total respondents 6 charter accountant levels have 12% and 2 from other (professors of the university) have 4%. It shows around half respondents are from managers level of the total respondents. Following parts further explains about the gender of the respondents.

Table 4.3

Gender of the respondents

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	41	82.0	82.0	82.0
Female	9	18.0	18.0	100.0
Total	50	100.0	100.0	

Appendix-1

Table No. 4.3 shows that most out of total respondents 41 respondent are male and only 9 respondents are female. So, 82.0% are male respondent and 18% is female respondent. Male respondents are of very high percentage. Similarly, following table describes age distribution of the respondents.

Table4.4

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	

Appendix-1

In table No. 4.4 respondent’s age is categorized into 3 levels below 30 years, 30 to 40 years and above 40 years. The respondents below 30 years have 28%, out of total respondents. Similarly respondent’s age "between" 30 to 40 have 48% and respondents' age above 40 years have 12% out of total respondents. The group 30 to 40 years has highest percentage among the different age group. Following table presents education status of the respondents.

Table 4.5

Academic qualification of the respondents

Formal education	Frequency	Percent	Valid Percent	Cumulative Percent
Master	28	56.0	56.0	56.0
Graduate	22	44.0	44.0	100.0
Total	40	100.0	100.0	

Appendix-1

In table No. 4.5 education of Master level and above than master level are taken in master level category. 56% of total respondents are from master level and number of respondents are 28. Number of respondents from graduate level is 22 and 44% are from graduate level out of total respondent. So, percent in academic qualification master level has high in total respondents. From the above status it is clearly evident that respondents are from different fields and groups therefore the sample is heterogeneous.

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	

Appendix-2

In order to assess the awareness level on Corporate Governance, 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 exports in this field and, 24 percent said that they understand very little. The majority of the respondents are found familiar percent is high.

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

Appendix-2

Table No. 4.7 shows that 94 percentages said corporate governance includes all the factors such as Professional management, Timely financial disclosure Ethical business, shareholders protection following government rules and regulations and 2 percentages on Professional management, following government rules and regulations and Shareholders protection. This fact reveals that the hiher level and middle level managers of Nepalese financial institutions are aware of corporate governance.

4.4. Most important issues of corporate governance in Nepalese financial institutions

Table 4.8

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	

Appendix-2

With respect to the important issues of the Corporate Governance 44 percent of the total respondents expressed that professional management, 24 percent expressed that protection of shareholders right and 20 percent expressed that timely disclosure and 12 percent expressed that following rules and regulations is the most important issue of corporate governance. The majority of the professional management is high in important issue of corporate governance.

4.5. Important aspects to make better Corporate Governance Status in Nepalese financial institutions

With respect to the important to make better corporate governance, the majority of total respondents give 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

(Appendix-3)

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. Best financial institutions to have good Corporate Governance system in Nepal

Table no.4.10

Financial institutions with good corporate governance

S. No.	Financial institutions	Mean rank
1	Commercial Banks	2.14
2	Insurance companies	2.66
3	Development banks	2.56
4	Finance companies	4.20
5	Cooperative banks	4.76
6	Investment banks	4.68

(Appendix-4)

According to the above table the respondents viewed the best financial institutions to have corporate governance is commercial banks with lowest mean rank of 2.14 , development banks with 2.56, insurance companies with 2.66, finance companies with 4.2,and highest for the cooperative banks with mean rank of 4.76.

Above table reveals that commercial banks are the first priority to have good corporate governance system in Nepal.

4.7 Clear mission and value expressed in written form

Table No. 4.11

Financial institutions with clear mission statements

S. No.	Financial institutions	Frequency	Percent	Cumulative Percent
1	Commercial Banks	26	52	52
2	Insurance companies	7	14	66
3	Development banks	8	16	82
4	Finance companies	5	10	92
5	Cooperative banks	1	2	94
6	Investment banks	3	6	100
Total		50	100	

(Appendix-5)

Out of the total respondents52% expressed their view on commercial banks, 14%on insurance companies and 16% on development banks, 10% on finance companies 2% on Cooperative banks, 6% on investment banks

4.8. Top three financial institutions to have good Corporate Governance system

Table no.4.12

Top first financial with good corporate governance

S.No.	Financial institutions	Frequency	Percent	Cumulative Percent
1	Commercial Banks	32	64	64
2	Development banks	7	14	78
3	Insurance Company	5	10	88
4	Finance companies	3	6	94
5	Investment banks	2	4	98
6	Cooperative Banks	1	2	100
Total		50	100	

(Appendix-6)

With respect to the first top financial institution with best corporate governance practice, 64 percentage of the respondents choose commercial banks.

Table no.4.13

Top second financial institutions with good corporate governance

S. No.	Financial institutions	Frequency	Percent	Cumulative Percent
1	Development Banks	26	52	52
2	Insurance Company	10	20	72
3	Commercial banks	6	12	84
4	Finance companies	4	8	92
5	Investment Banks	3	6	98
6	Cooperative Banks	1	2	100
Total		50	100	

(Appendix-6)

with respect to the second top financial institution with best corporate governance practice,56 percentage of the respondents choose commercial banks.

Table no.4.14

Top third financial institutions with good corporate governance

S. No.	Financial institutions	Frequency	Percent	Cumulative Percent
1	Insurance Company	21	42	42
2	Finance companies	13	26	68
3	Development Bank	12	24	92
4	Commercial Banks	3	6	98
5	Investment Banks	1	2	100
6	Cooperative Banks	0	0	100
Total		50	100	

(Appendix-6)

With respect to the third top financial institution with best corporate governance practice, 42 percentage of the respondents choose commercial banks.

4.9. Poorest sectors in corporate governance

Respondents were asked about the poorest sector in Corporate Governance system in Nepalese financial institutions. Out of the total respondents 30 percentage viewed cooperative banks as poorest financial institutions with respect to corporate governance.

Table 4.15

Poorest corporate governance

S.No.	Financial institutions	Frequency	Percent	Cumulative Percent
1	Commercial Banks	3	6	6
2	Insurance companies	6	12	18
3	Development banks	8	16	34
4	Finance companies	12	24	58
5	Cooperative banks	15	30	88
6	Investment banks	6	12	100
Total		50	100	

(Appendix-7)

According to the above table the respondents views the financial institutions to have poorest corporate governance practice is corporate governance is cooperative banks with 30 percent, then finance companies with 24 percentage , development banks with 16 percentage Investment banks with 12 percentage and commercial banks with only 6 percentage.

4.10 Average situations in Nepalese Companies

For the purpose of testing the consistency of the information following hypothesis was developed

H0: the perception of the respondents on various issues of corporate governance is indifference

H1: the perception of the respondents on various issues of corporate governance is not indifference.

The calculated value of chi-square is 14.20. *(Appendix-8)*

No. of freedom = (r-1)(c-1)=(17-1)(2-1)=16x1=16

Where, r=no. of rows=17

C=no. of columns=2

Table value of chi-square at 0.05 for 16 no. of freedom is 16.30

Since the calculated value of chi-square is lesser than table value, the null hypothesis is accepted i.e. the perception of respondents on various issues of corporate governance with regard to Nepalese financial institution is indifference.

Table no.4.16

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	

(Appendix 8)

With respect to the separation of roles of chairman and CEO, 60 percent of total respondents agreed while 140 percent disagreed. The majority of agreed percentage is high.

Table No 4.17

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	40	100.0	100.0	

(Appendix 8)

With respect to majority of directors are non- executive, 52 percent of total respondents agreed while 48 percent disagreed. So, majority of disagreement percent is high.

Table No. 4.18

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	

(Appendix 8)

With respect to significant number of investors, 36 percent of total respondents agreed while 64 percent of total respondents disagreed. Majority of disagree percent is high.

Table No. 4.19

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	

(Appendix 8)

With respect to the outsider select significant number of directors, 42 percent of total respondents agreed while 58 percent disagreed. Majority of disagree percent is high.

Table No. 4.20

Good shareholder's right of voting

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	24	78	48	48
No	26	22	52	100.0
Total	40	100.0	100.0	

(Appendix 8)

With respect to good shareholders right of voting 78 percent of the total respondents agreed while 22 percent disagreed. The majority of disagreed is high.

Table No: 4.21

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	

(Appendix 8)

With respect to observed good reporting received only 44 percent of the total respondents agreed while 56 percent disagreed. The majority of disagreed percentage is very high.

Table 4.22

Timely performance report reviewed

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

(Appendix 8)

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 4.23

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	

(Appendix 8)

With respect to the satisfied internal auditing and control system44 percent of the total respondents agreed while 56 percentages disagreed. The percentage of the disagreed is very high.

Table No 4.24

Professional management system

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

(Appendix 8)

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

Table No 4.25

Ethical businesses

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

(Appendix 8)

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

Table No 4.26

Timely financial audits

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

(Appendix 8)

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

Table No. 4.27

Adequate financial disclosures

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

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

Table No. 4.28

Good legal audit system

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

(Appendix 8)

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 very high.

Table No. 4.29

Good organization culture

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

(Appendix 8)

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. 4.30

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	

(Appendix 8)

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. 4.31

Good working environments

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

(Appendix 8)

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 very high.

Table No. 4.32

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	

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 very high.

4.11. Information of Nepalese organization related to Corporate Governance system

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

Table. No. 4.33

Information related to corporate governance

Variables	Mean rank
Managers should be from professionals; not from the investors team	4.6
Nepalese *financial institutions* should cope with the changing legal environment	3.96
Financial institutions should maintain fair accounting system and disclose financial reports timely	4.56
Nepalese *financial institutions* 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

(Appendix 9)

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 *financial institutions* should cope with the changing legal environment is 3.96 and for the financial *institutions* should maintain fair accounting system and disclose financial reports timely is 4.56. Nepalese *financial institutions* 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.

4.12. Problems of Corporate Governance in Nepalese Financial institutions

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

Table 4.34

Problems of corporate governance in Nepalese financial institutions

Items	**Number**
Minority shareholders issues	15
Treat as family business	14
AGM not held in time	13
Running organization without policy and procedure	12
Poor transparency disclosure	11
Lack of professional management	11
Not appropriate rules and regulation	9

In most of the respondent's view the main problem of corporate governance in Nepalese financial institution is minority share holders issues i.e. they are not treated in equitable basis. Another problem is financial institutions are treated as family business non competent family members are recruited as their staffs in most of the Nepalese financial institutions. 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

4.13. Major Findings

1. Generally, the persons who are concerned with Nepalese financial institutions are familiar and aware with the concept of the corporate governance. With respect to meaning of corporate governance in respondents view the majority of the respondents said that it is the combination of all elements such as professional management, timely financial disclosure, ethical business, shareholders protection and following government rules and regulations.

2. With respect to problems in corporate governance in Nepalese companies' majority of respondents said that poor transparency disclosures, non-equitable treatment to minority

shareholders, non appropriate rules and regulations treat as family business, AGM not held in time and lack of professional management.

3. With respect to the important issues of the corporate governance the majority of the respondent gives first priority to shareholders protection, second priority to professional management and third priority to timely disclosure.

4. With respect to the financial institution with best corporate governance, the majority of respondents give first priority to commercial banks, second to development banks third to the insurance companies and forth fifth and sixth to the finance company, investment bank and cooperative banks respectively.

5. With respect to effective annual general meeting system and clear mission and value expressed in written form the majority of the respondent give first priority to commercial banks. Similarly second, third, fourth, fifth and sixth priority to development banks, insurance companies finance company, investment bank and cooperative banks respectively

6. With respect to top three financial institutions with best corporate governance practice in Nepal, the majority of the respondents ranked commercial bank at first place, development banks at second place and insurance companies at third place.

7. With respect to poorest financial institutions in corporate governance practice, the majority of respondents felt that cooperative banks have weak corporate governance practices.

8. with respects to average situation in Nepalese companies in different aspect.

9. So, far the observation on the corporate governance system in Nepalese financial institutions ‘managers should be from professional not from investors’, ‘Nepalese

financial institutions should cope with the changing legal environment', '*Financial institutions* should maintain fair accounting system and disclose financial reports timely', 'Nepalese *financial institutions* have realization of obligation towards shareholders and other stakeholders', 'Good corporate governance positively effect the company 's performance' and 'AGM should be held within stipulated time after finishing fiscal year' respondents agreed all the facts.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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 corporate governance practice in Nepal. 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 these institutions are practicing them in order to satisfy shareholders and other stakeholders.

This study covers almost all types of Nepalese organizations. This study is based on primary source of information. Survey included 50 respondents from different sectors of Nepalese organizations. They gave their response on different aspects of corporate governance practices in Nepalese organizations. The results of respondents were analyzed to ascertain the current pace of corporate governance practice in Nepalese organizations.

5.2 Conclusion

Based on the finding of the study it can be concluded that high performing financial institutions were found the organization that with good corporate governance practices. Survey of corporate governance practices showed that corporate governance practice is average in Nepalese organizations. Especially, in commercial banks and development banks there is strong practice of corporate governance where as finance companies, insurance companies have satisfactory corporate governance practices and cooperative banks and investment banks have poor corporate governance practices in comparison with other financial institutions.

5.3 Recommendation

Present study can be a valuable piece of research works in Corporate Governance practice in Nepalese organizations. It may be valuable for all organizations of different sectors of Nepalese companies. After analysis researcher recommended some of the following basic guidelines to the concerned parties for necessary improvement in the corporate governance status.

1. As per the finding some of the Nepalese organizations have weak professional management and transparent disclosure so; companies should improve their professional management and transparency disclosures.
2. Some organizations have been found satisfactory in conducting timely AGM, having clear mission and value in written form so they should continue it.
3. Most of the organizations should improve their timely reports, develop professional management system, conduct internal audit and control system with timely financial disclosures, good working culture, and good working environment.
4. Organizations should treat minority shareholders in equitable basis. Management should develop good relation with minority shareholders and in AGM their issues should be pointed.
5. Some organizations such as finance companies, investment banks and cooperative banks should practice corporate governance strongly to enhance performance of the firm and to secure market share in globalize competitive market.
6. Nepalese organizations should maintain an acceptable ratio of executive and non executive directors and should provide growth and enhancement opportunities to employees, lower level managers and middle level managers.