

Corporate Governance and Financial Performance in Nepal

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Abstract

This paper analyzes the factors that affect corporate governance and influence on financial performance of Nepalese firms for the period of fiscal year 2009/10 to 2015/16 using descriptive and causal comparative research design. The profit margin and return on assets are dependent variables used to measure financial performance and corporate governance and firm related variables such as corporate governance index, age of firms, size of assets, debt ratio, market to book ratio and ownership concentration are considered as explanatory variables. The result of this paper reveals that profit margin and return on assets of firms are positively related with age, market to book ratio and overall corporate governance index which implies that higher age, market to book ratio and corporate governance increase financial performance of Nepalese firms. Further, the regression result of the study shows that size of assets and debt ratio have negative effect and ownership concentration has no relationship with firms' financial performance. Finally, result of this paper concludes that corporate governance, market to book value ratio, age, size of assets and debt ratio have strong explaining power of financial performance of Nepalese firms.

Key words

Corporate governance index, profit margin, return on assets, age of firms, size of assets, debt ratio, book to market equity and ownership concentration.

1. Introduction

Corporate governance and financial performance is the recent subject to be considered by academicians, practitioners, policy makers and regulatory bodies. Corporate governance has been one of the main areas among studies of scholars and policy makers after 1990s. In the modern world, when several high-profile corporate scandals in USA (AIG Insurance, Arthur Anderson, Enron, Lehman Brothers, Tyco, WorldCom, Xerox, etc.), Asian Financial Crisis (1997/98) and elsewhere in the world which triggered an in-depth reflection on the regulatory role of government in protecting the interests of shareholders. Moreover, corporate scandals (2001/02) led to the Sarbanes-Oxley Act

of 2002 and to various amendments to the US stock exchanges' regulations. Since then the issue of corporate governance continues to receive a high level of attention. Valuable lessons have been learned from series of corporate collapses that has occurred in different parts of world in the early part of this decade. Since then, UN member states have undertaken various actions to strengthen their regulatory frameworks in this area to restore investor confidence, and enhance corporate transparency and accountability.

Corporate governance is the system by which business corporations are operated, regulated, monitored and controlled for promoting corporate fairness, transparency and accountability (World Bank, 1999). Barrett (2002) defined corporate governance as process to encompass how an organization is managed, its corporate and other structures, its culture, its policies and strategies and ways in which it deals with its various stakeholders. The corporate governance deals with structures, policies and procedure applied by business firms to achieve target objectives, missions and visions about stockholders, suppliers, customers, employees and regulatory agencies etc. It is the structure through which firm's objectives are set, attaining objectives and monitoring firm's performance (OECD,2004).

Sound corporate governance is believed to be essential for maintaining investors' confidence and good performance to solve problems of corporate misconduct and behave. In view of growing number of scandals and subsequent wide-spread public and media outcry, a plethora of governance 'norms,' 'codes,' 'best practices,' and 'standards' have sprouted around the globe. For instance, Sarbanes-Oxley legislation in USA, Cadbury Committee recommendations for European Union companies, and the OECD principles of corporate governance are the best-known examples of them. The corporate governance deals with assurance of getting a return on investment of shareholders, controlling manager, and they become sure that no misuse of financial resources in business firms. Thus, corporate governance and financial performance are affected by internal such as officers, stakeholders, conditions of a corporation as well as external factors clients, government regulations etc. affecting to the firms.

In the modern globalized business age, corporate governance and financial performance has becomemorechallenging and burning issues in all developed and developing countries. In Nepal, liquidation of several institutions (Nepal development bank, Gurkha development bank, Shreeram Sugar Mills, Bansbari Leather and Shoes, etc.), and poor performance of various public enterprises focuses for the consideration about issues of corporate governance and financial performance.

The most of prior empirical studies on corporate governance and financial performance and their issues are based on developed countries, mainly from US and UK firms. The corporate governance literature in US and UK focuses on the role of Board as a bridge between owners and management (Cadbury, 1992;Ward, 1997). In an environment in which ownership and management have become widely separated, owners are unable to exercise effective control overthe management or Board. Minimal research has been done on developing countries, and these studies are mainly focused on corporate governance environment, legal measures and their implementation. Due to dynamic and globalization of business environment factors, Nepalese firms

are facing tremendous challenges for their survival, growth and profitability. The preponderance of prior empirical studies on corporate governance and financial performance carried out in developed and developing countries but a very few studies have been administered in developing countries and there is lacking in-depth studies in under-developing countries like Nepal. Thus, this study is an attempt to analyze factors affecting corporate governance and financial performance of Nepalese firms. Thus, this paper seeks to answer the questions and issues of (a) what is the status of corporate governance practice in Nepalese firms?, (b) does corporate governance lead to structure operating performance of Nepalese firms?, (c) how do board composition or size affect firm performance in Nepal?, (d) how audit and discloser quality influence performance of Nepalese firms? (e) is there any relationship between ownership and firm performance? and (f) what is relationship between corporate governance and firm performance? what are the effect of age, size of assets, use of debt, market to equity of firms on financial performance of firms in the context of Nepal?

Research Objectives: The basic objective of this study is to examine the relationship between corporate governance and firm performance in Nepal.

The remaining section of this paper is organized as follows: Section two is for brief literature review of related studies on corporate governance and firm's performance. Section three covers research methodology. Section four of this study deals with the data analysis and results. Finally, section five summarizes conclusions and suggestions for future research.

2. Review of Related Studies

The various theories of corporate governance have been developed. Agency Theory is widely used for explaining various corporate governance issues which is based separation of ownership and control in large corporation. In the corporation, managers (agents) are appointed to make decisions on behalf of principals (owners) to maximize return on shareholders' equity (Jensen, & Meckling, 1976). The Stewardship Theory argues that managers are not motivated by individual goals but they are stewards, whose motivates are aligned with objectives of their shareholders or principals (James, Schoorman, & Donaldson, 1997). This theory argues that shareholders' interest can be maximized by assigning same person to the post of board chair and chief executive officer to give more responsibility and autonomy to the CEO as a steward (agent) in the corporation (Donaldson, & Davis, 1991). The Stakeholder theory of corporate governance deals with management discipline and gradually developed to include corporate accountability to board range of stakeholders (Abdullah, & Valentine, 2009). This theory argues that managers are not only responsible for the interest of shareholders but also for a network of relationships to serve which includes suppliers, employees and business partners.

Corporate governance indicates the policies and procedures applied by firms to attain certain sets of objectives, corporate missions and visions about stockholders, employees, customers, suppliers and different regulatory agencies and community at large. The role of governance is to maximize shareholder's wealth. Corporate governance depends on managerial performance as well as a consideration of social responsibility,

socio-cultural-environmental dimension of business procedure, legal and ethical practices with a focus on customers and other stakeholders of a corporation. Corporate governance is gaining importance among policy maker's entrepreneurs, business personnel, stakeholders and related organizations. Some prior empirical literature of corporate governance can be summarized with the major findings as follows:

Gupta, Nair and Gogula(2003)analyzed corporate governance practices of selected Indian companies listed in Mumbai Stock Exchange by using content analysis, and least square regression technique for data analysis and found that variations in the reporting practices of companies, and in certain cases, omission of mandatory requirements as per Clause 49.

In the study of Assessment of Disclosure Standard in Stock Market;Shrestha (2005) found poor disclosure practice in Nepalese stock market. Though provisioning of information disclosure norms is specified in various acts, byelaws, directives and guidelines but pertinent to securities transactions and determination of securities prices are not satisfactorily followed due to authority overlapping and conflict of laws and regulations. The result of study concludes that listed companies are not fulfilling disclosure norms since even now many of them do not conduct annual general meeting timely in the absence of annual and audit report produced within time framework specified in respective acts, laws and internal rules and regulations. The prospectus issued to public at time of floating share is not presenting fair and true information disclosure. The fraudulent and worthless securities are often issued in the securities market without investigating on track record of promoters in terms of their integrity, moral standing and professional background. The regulating authorities often by pass disclosure affecting interest of investor. The unfair stock market practices often go undetected without compliance of disclosure norms.

In the study of ownership concentration and firm value;Selarka (2005) analyzed effect of ownership on firm's value based on distinguishes between controlling insiders and non-controlling insiders and revealed a U-shaped relationship between insider ownership and firm's value, with point of inflection lying at a much higher level, between 45percent to 63 percent.Collett and Hraskey (2005) examined relationships between voluntary disclosures of corporate governance information by companies with intention to raise capital in financial market. A sample of 299 Australian companies listed on Australian Stock Exchange using data based on annual reports of companies and revealed that only twenty-nine Australian companies made voluntary corporate governance disclosure, and degree of disclosures were varied from company to company.

Barako, Phil, and Izan(2006) examined extent of voluntary disclosure by Kenyan companies over and above mandatory requirements using ten-year data (1992 to 2001) and revealed audit committee was a significant factor associated with level of voluntary disclosure, while proportion of non-executive directors on the board was negatively associated. This implies that existence of audit committee discloses more information leads to higher level of governance and firms with non-executive directors have negative impact on corporate governance and performance.Subramanian (2006) examined differences in disclosure pattern of financial information and governance attributes of companies based on data with respect to disclosure score. Data had

been collected from the annual reports of companies for financial year 2003/04 using transparency and disclosure survey questionnaire techniques. The findings of study concluded no differences in disclosure pattern of public or private sector companies, as far as financial transparency and information disclosure was concerned.

In the study of institutional ownership and firm performance; Imam and Malik (2007) observed that foreign holdings are increasing in those firms that have good governance. There is a positive relationship between institutional ownership and firm performance suggesting that institutional shareholders have incentive as well as the power to monitor and control behavior of firms which play a significant role in corporate governance. The study concluded that role of large institutions in corporate governance is particularly important in countries where legal protection of shareholders' interest is weak for historical and institutional reasons.

Bino, and Tomar (2008) examined relationship between corporate governance and bank performance and revealed bank size has a positive effect on bank performance which indicates large banks enjoy better profits than small banks due to economies of scale. Yung (2009) analyzed relationship between corporate governance and bank performance in Hong Kong and found significant relationship between board size and bank performance and negative and significant relationship between level of related party loan and bank performance.

Ajanthan and Balaputhiran (2013) observed effect of board size, board diversity, outside directors' percentage and board meeting frequency on bank performance and revealed that all explanatory variables are positively related with return on equity in the state banks as well as private banks except board diversity and board meeting frequency. The study concluded that board diversity has strong negative effect on return on assets. Fratini and Tettamanzi (2015) analyzed relationship between corporate governance and performance in Italian firms using regression model and observed that board size has positive and statistically significant relationship with firm performance which implies larger board size firms have higher performance.

Owino and Kivoi (2016) analyzed effect of strength of auditing and reporting standards, efficiency of board directors, protection of minority shareholders on bank performance of licensed banks using Generalized Method of Moments and argued that strength of auditing and reporting standards, efficiency of board of directors have positive but protection of minority shareholders has negative effect on bank performance. Bhattarai (2017) examined relationship between corporate governance and financial performance of Nepalese commercial banks and revealed that audit committee and portion of independent directors have positive but board size has negative effect on financial performance of commercial banks in Nepal.

3. Research Methodology

Research Design

To address research questions and objective, this paper has applied descriptive and causal comparative research design. The descriptive research design has been used various descriptive measures such as mean, median, standard deviation, minimum, maximum values to understand and explain the nature of variables. Similarly,

correlation analysis has been used to see the strength and direction of relationship between corporate governance and performance variables. Causal comparative research design is used to examine the cause and effect relationship among dependent and explanatory variables.

Nature and Sources of Data

This paper uses secondary sources of data. For secondary data set, necessary information is collected from periodical reports and statements published by Nepal Rastra Bank (NRB), Security Board of Nepal (SEBON), Nepal Stock Exchange (NEPSE) and financial statements of respective firms covering the period of seven years from fiscal year 2009/10 to 2015/16.

Population and Sample

In this study, total listed companies in the NEPSE till Mid-July 2016 are considered as population. Out of total population by end of fiscal year 2015/2016, 30 listed firms are selected as sample which includes seven commercial banks, seven development banks, five finance company, one trading company, two manufacturing, two hydropower, two hotels and four insurance companies. Total 140 observations are used to analyze relationship between corporate governance and firm performance in Nepal.

Analytical Tools

The collected data are processed and analyzed based on software SPSS (version 20), and MS-Excel. In this study, different descriptive statistics (mean, minimum value, maximum value, standard deviation), correlation analysis, regression analysis along with t-test, F-test, Adjusted R² are used for the analysis data.

Variables

In this paper, return on assets (ROA) and profit margin (PM) are firm performance and considered as independent variable. The ROA is percentage of net income on total assets. It is computed as net income divided by total assets of sample firms. The PM is percentage of net income on sales. It is computed as net income divided by sales of firms. The prior theoretical and empirical studies have observed several factors that affect corporate governance and firm performance. In this study, corporate governance index (equally weighted based on shareholders right, commitment, board size and independency, discloser, transparency, audit and compliance), firm age (natural logarithm of firm's age since operation), firm size (natural logarithm of total assets), debt ratio (ratio of total liabilities to total assets), market to book ratio (ratio of total market value of equity to total book value of equity) and ownership concentration (a dummy variable and used 1 for no ownership concentration and otherwise 0) which are considered as explanatory (independent) variables.

The Model

The following multiple regression models will be used to analyze influence of explanatory variables on corporate performance.

$$\text{Corporate performance} = \beta_0 + \beta_1 \text{CGI} + \beta_2 \text{AGE} + \beta_3 \text{SIZE} + \beta_4 \text{DR} + \beta_5 \text{MBR} + \beta_6 \text{OWT} + \varepsilon_t \quad \dots (1)$$

$$\text{PM} = \beta_0 + \beta_1 \text{CGI} + \beta_2 \text{AGE} + \beta_3 \text{SIZE} + \beta_4 \text{DR} + \beta_5 \text{MBR} + \beta_6 \text{OWT} + \varepsilon_t \quad \dots (2)$$

$$\text{ROA} = \beta_0 + \beta_1 \text{CGI} + \beta_2 \text{AGE} + \beta_3 \text{SIZE} + \beta_4 \text{DR} + \beta_5 \text{MBR} + \beta_6 \text{OWT} + \varepsilon_t \quad \dots (3)$$

Where,

ROA = return on assets

PM = profit margin

CGI = corporate governance index

AGE = logarithm of age of firms

SIZE = logarithm of total assets

DR = debt ratio

MBR = market to book ratio

OWT = ownership type

β_0 = coefficient of constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ & β_6 = coefficient of explanatory variables

ε_t = error term

4. Data Analysis and Results

This section of the paper attempts to analyze data associated with factors affecting corporate governance and firm performance. This study deals with corporate governance and their effect on firm performance to observe and analyze the relationship among these variables. The various financial and statistical tools such as descriptive statistics, correlation analysis and regression analysis under causal comparative research design are applied to analyze effect of corporate governance and other various factors affecting firm performance of Nepalese firms.

Descriptive Statistics

The paper has applied descriptive statistics to describe factors affecting firm performance during study period. Table 1 presents summary statistics of variables used in this study. It shows number of observation, mean, median, standard deviation, minimum and maximum values of firm performance and its explanatory variables.

Table 1: Descriptive Statistics of Variables

S. N.	Variables	N	Mean	Median	Std. Dev.	Minimum	Maximum
1	ROA	140	5.362	4.17	10.943	-29.328	58.639
2	PM	140	20.146	17.951	19.247	-67.533	79.295
3	CGI _a	140	0.446	0.351	0.245	0.113	0.914
4	AGE	140	16.137	14.248	7.319	3.257	36.459
5	SIZE	140	7.946	7.537	2.013	4.504	11.837
6	DR	140	76.148	79.235	31.297	13.257	121.641
7	MBR	140	7.831	7.324	5.692	1.175	38.572
8	OWT	140	0.613	1.000	0.463	0.000	1.000

Source: NRB, SEBON & NEPSE, 2009/10-2015/16.

Note: aComposite corporate governance index (CGI) is computed based on equally weighted sub-indexes of shareholders right, commitment, board size and independency, discloser, transparency, audit and compliance.

The result in Table 1 shows descriptive statistics for all variables. The ROA, PM, CGI, AGE, SIZE, DR, MBR and OWT all have a positive mean values. The highest ROA is 58.64 percent, least is -29.33 percent and average is 5.36 percent. Average mean of PM is 20.15 percent with minimum and maximum of -67.53 percent and 79.29 percent respectively. The result implies that Nepalese firms have positive financial performance. Average mean corporate index is 0.45 with minimum 0.11 and maximum of 0.91. Further, result of Table 1 indicates that average mean values of AGE, SIZE, DR, MBR and OWT are 16.14, 7.95, 76.15, 7.83 and 0.61 respectively. The standard deviation of ROA and PM are 10.94 percent and 19.25 percent which shows variation in performance of Nepalese firms. The result indicates that CGI has the least standard deviation (0.25) whereas DR has the highest standard deviation (31.30) which indicate corporate governance index of Nepalese firms has less variation but in use of debt they have more variation. Finally, descriptive result of Table 1 also presents median, minimum and maximum values of all the explanatory variables.

Correlation Analysis

This paper has used various factors affecting firm performance such as corporate governance, age of firm, firm size, debt ratio, market to book ratio and ownership concentration to analyze corporate governance and firm performance. In this study, Pearson's correlation coefficient is used as measure of linear association in explaining direction and magnitude of relationship among different pairs of factors and firm performance. Table 2 presents correlation coefficient of variables to explain relationship between firm performance and its explanatory variables during the study period.

Table 2: Correlation Coefficients of Firm Performance and Explanatory Variables

'' indicates that correlation is significant at 10 percent level, '**' indicates that correlation is significant at 5 percent level and '***' indicates that correlation is significant at 1 percent level (2-tailed).*

Variables	ROA	PM	CGI	AGE	SIZE	DR	MBR	OWT
ROA	1	0.278**	0.230***	0.288***	-0.479**	-0.691**	0.425**	-0.195
PM	-	1	0.341**	0.124	0.143	-0.227	0.471**	-0.245
CGI	-	-	1	0.413**	0.671**	0.413**	0.352**	0.139
AGE	-	-	-	1	0.305**	-0.126	0.284	-0.376**
SIZE	-	-	-	-	1	0.524**	-0.182	-0.261
DR	-	-	-	-	-	1	0.316	0.138
MBR	-	-	-	-	-	-	1	0.261
OWT	-	-	-	-	-	-	-	1

Source: Author's own calculation based on data of NRB, SEBON & NEPSE, 2009/10-2015/16.

Table 2 shows value of Pearson's correlation coefficient between different pairs of explanatory variables and corporate performance (ROA and PM). The result has exhibited in Table 2 indicates that ROA and PM both are positively related with CGI and with AGE and MBR. The ROA and PM are significantly and positively related

with CGI, AGE and MBR. Both ROA and PM are negatively related with SIZE and DR. Among given set of explanatory variables, CGI, and AGE have stronger positive relation with ROA and PM of Nepalese firms which implies that firm's performance are positively related with level of corporate governance, their lives and market to book values of equity.

Regression Analysis

In this paper, regression models have been used to explain relationship between corporate performance and explanatory variables. Table 3 and Table 4 present regression results of univariate, bivariate and multivariate regression models under previous specified equations to explain relationship between various factors and their effect on performance of Nepalese firms.

Table 3: Regression Relationship of Profit Margin with Explanatory Variables

$$\text{Model: } PM = \beta_0 + \beta_1 \text{CGI} + \beta_2 \text{AGE} + \beta_3 \text{SIZE} + \beta_4 \text{DR} + \beta_5 \text{MBR} + \beta_6 \text{OWT} + \varepsilon_t$$

The figures in the parentheses are t-value and asterisk sign indicates that result is significant level. '' Indicates statistical significance at 10 percent level, '**' Indicates statistical significance at 5 percent level and '***' indicates statistical significance at 1 percent level. Also reported are the F-statistics and Adjusted R2.*

Models	Constant	CGI	AGE	SIZE	DR	MBR	OWT	Adj.R ²	F
1	3.425 (3.976***)	0.348 (3.895***)	-	-	-	-	-	0.368	15.731***
2	4.142 (4.735***)	0.346 (3.418***)	0.146 (2.351*)	-	-	-	-	0.286	14.264**
3	873 (9.526***)	0.562 (5.738***)	-	-0.589 (-4.649***)	-	-	-	0.324	15.925***
4	4.137 (6.426***)	0.434 (4.686***)	-	-	-0.425 (-4.951***)	-	-	0.257	12.964**
5	2.437 (4.694***)	0.392 (0.643**)	-	-	-	0.574 (2.731***)	-	0.413	13.853***
6	5.795 (6.138***)	0.347 (3.306***)	-	-	-	-	-0.109 (-0.327)	0.157	10.215**
7	4.685 (5.461***)	0.657 (4.728***)	0.211 (1.936**)	0.314 (-2.358**)	-0.319 (-3.415***)	0.176 (2.428***)	-0.124 (-0.279)	0.356	13.673**

Source: Author's own calculation based on data of NRB, SEBON & NEPSE, 2009/10-2015/16.

The first regression model in Table 3 shows positive relationship between PM and CGI of Nepalese firms. The regression result indicates relationship between corporate governance and profit margin of firms seems strong positive and statistically significant. The result is consistent with the findings of Shleifer and Vishny (1997), La Porta, Lopez-de-Silanes and Shleifer (1999) and Gupta, Kennedy, and Weaver (2009). The second model exhibited in Table 3 depicts relationship between CGI and PM including AGE of firms and regression results show positive relationship of CGI and AGE with PM. The result of regression analysis implies that CGI has strong and statistically significant impact but AGE has positive but weak effect on PM.

Similarly, regression analysis of the third and fourth models shown in Table 3 indicates SIZE and DR are negatively related with PM at 1 percent level of significance

whereas overall corporate index has positive association and statistically is significant at 1 percent level of significant. The negative association between SIZE and PM contradicts with the finding of Tsamenyi, Enninful and Onumah (2007) with argument that higher firms tend to have a more profitability. The fifth regression model shows a positive relationship of MBR with PM and it indicates MBR has significant impact on PM and it is statistically significant at 1 percent level of significant. The model also shows a positive relationship between CGI and PM with inclusion of MBR. The regression result of model six presents OWT has negative and statistically insignificant relation with PM.

Finally, Table 3 presents multivariate regression model that show combined effect of CGI and other firm related explanatory variables on PM. The regression model seven indicates CGI, AGE and MBR are positively and significantly related with PM whereas SIZE, DR and OWT are negatively related with PM but SIZE and DR have statistically significant impact but OWT has no significant effect on PM. The coefficient of determinants (Adj. R²) of the model seven is 0.356. Thus, predicting power of the model is 35.6 percent to explain financial performance of Nepalese firms by its explanatory variables. The F-values of models 1 through 7 are statistically significant which implies that all the regression models used in this paper are statistically significant (model one, three and five at 1 percent and model two, four, six and seven at 5 percent level of significant). The computed values of DW statistics for entire models' specifications of PM fall in between dU and 4-dU. Therefore, there is no evidence of serious problem of autocorrelation. With regards to multicollinearity, VIF of explanatory variables across all the model specifications of PM are significantly lower than ten. Thus, there is no evidence of multicollinearity in the regression models of PM.

Table 4: Regression Relationship of Return on Assets with Explanatory Variables

$$\text{Model: } ROA = \beta_0 + \beta_1 \text{CGI} + \beta_2 \text{AGE} + \beta_3 \text{SIZE} + \beta_4 \text{DR} + \beta_5 \text{MBR} + \beta_6 \text{OWT} + \varepsilon_t$$

*The figures in the parentheses are t-value and asterisk sign indicates that result is significant level. '**' Indicates statistical significance at 10 percent level, '***' Indicates statistical significance at 5 percent level and '****' indicates statistical significance at 1 percent level. Also reported are the F-statistics and Adjusted R².*

Models	Constant	CGI	AGE	SIZE	DR	MBR	OWT	Adj.R ²	F
1	5.172 (9.624****)	0.143 (3.157**)	-	-	-	-	-	0.131	5.653**
2	3.258 (4.248**)	0.271 (2.549**)	0.268 (4.376****)	-	-	-	-	0.275	8.378****
3	11.473 (12.375****)	0.428 (3.975****)	-	-0.327 (-6.825****)	-	-	-	0.329	21.853****
4	12.571 (13.276****)	.183 (2.534****)	-	-	-0.428 (-8.159****)	-	-	0.352	37.318****
5	0.327*** (3.641)	0.317*** (1.452)	-	-	-	0.186*** (2.941)	-	0.391	24.154****
6	8.146 (10.436****)	0.142 (2.357)	-	-	-	-	-0.197 (-3.749**)	0.424	13.758**
7	5.241 (8.324****)	0.107 (3.658****)	0.139 (2.173**)	-0.232 (-3.162****)	-0.136 (1.219)	0.173*** (3.265)	-0.057 (-1.256)	0.615	23.628****

Source: Author's own calculation based on data of NRB, SEBON & NEPSE, 2009/10-2015/16.

The first regression model in Table 4 shows positive relationship between ROA and CGI of Nepalese firms. The regression result indicates positive relationship between corporate governance and profit margin of firms and seems statistically significant at 5 percent level of significant. The second model exhibited in Table 4 depicts relationship between CGI and ROA including AGE of firms and regression results shows positive association of CGI and AGE with ROA. The regression result indicates that CGI and AGE both have statistically significant impact on PM but AGE has strong explanatory power of ROA.

Similarly, regression analysis of the third and fourth models of Table 4 shows that SIZE and DR are negatively related with ROA whereas overall corporate index (CGI) has positive and statistically significant impact on ROA at 1 percent level of significant. The fifth regression model presents a positive relationship of MBR with ROA and it indicates MBR has strong positive impact on ROA and it is statistically significant at 1 percent level of significant. The model also specifies a positive relationship between CGI and ROA with inclusion of MBR. The regression result of model six shows OWT has negative but statistically significant impact on ROA when CGI and OWT are considered as explanatory variables.

Finally, Table 4 presents multivariate regression models that show combined effect of CGI and other firm related factors on ROA with inclusion of all explanatory variables. The regression model seven indicates CGI, AGE and MBR are positively and significantly related with ROA whereas SIZE, DR and OWT are negatively related with ROA but SIZE has statistically significant effect but DR and OWT have no significant impact on ROA. The coefficient of determinants (Adj. R²) of the model seven is 0.615. Thus, predicting power of the model is 61.5 percent to explain financial performance of Nepalese firms by its explanatory variables. The F-values of the models 1 through 7 are statistically significant which implies that all regression models applied in this paper are statistically significant (model two, three, four, five and seven at 1 percent and model one, and six at 5 percent level of significant). The computed values of DW for entire models' specification of ROA fall in between dU and 4-dU. Therefore, there is no evidence of serious problem of autocorrelation. With regards to multicollinearity, VIF of explanatory variables across all model specifications of ROA are significantly lower than ten. Thus, there is no evidence of multicollinearity in regression models of ROA of this paper.

5. Conclusion

In the modern competitive and globalized business age, economic activities are growing up. The success of firms depends on their corporate governance and financial performance. This study has been attempted to analyze corporate governance index and other factors influencing financial performance of Nepalese firms using descriptive and causal comparative research design for the study period 2009/10-2015/16. The result of study confirms that financial performance of Nepalese firms is positively affected with the level of corporate governance. The study reveals that profit margin and return on assets of Nepalese firms are positively related with age, market to book ratio and overall corporate governance index which implies that higher age, market to book value

ratio and higher level of corporate governance of firms increase financial performance Nepalese firms. Further, result of this paper has found size of assets and debt ratio have negative effect but ownership concentration has no relationship with financial performance. Finally, result of this study concludes that corporate governance, market to book value ratio, age, size of assets and debt ratio have strong explaining power of financial performance of Nepalese firms.

Scope for Future Research: This study has used few corporate governance variables to analyze financial performance of Nepalese firms. Some other variables such as sales growth, book value of assets, CEO duality etc. can be considered in future studies. This paper has considered only profit margin and return on assets to measure and analyze firms' performance. Hence, further study should be inclusion of return on equity, Tobin's Q, stock return etc. to analyze of corporate governance and firms' performance. This paper covers only few firms, observations and it covers limited study period. Thus, there is a need of future research using more sample, and longer period to analyze corporate governance and financial performance of Nepalese firms.

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