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Corporate Governance Practices and Perceived Performance of Commercial Bank in Nepal

Babu Ram Rawat
Assistant Professor
Department of Management, Far Western University (Nepal)
brrawat813@fwu.edu.np / brrawat813@gmal.com

ABSTRACT

This study explores the role of corporate governance in the performance of selected commercial banks in Nepal. The research aims to assess the current status of corporate governance practices, analyze the relationship between key governance elements and organizational performance, and examine the overall impact of corporate governance on perceived performance. A quantitative research includingdescriptive and casual comparativeresearch design wereadopted, with data gathered from 200 respondents using a self-administered survey questionnaire adapted from a previously validated instrument from employees working in both public and private banks, using convenience sampling.The study employed descriptive statistics, correlation, and multiple regression analyses to investigate the relationship between corporate governance practices and organizational performance. The findings indicate a positive correlation between effective corporate governance and improved perceived performance, highlighting the crucial role that transparency, accountability, fairness, discipline, and responsibility play in enhancing bank performance. The research underscores the importance of implementing corporate governance practices to maximize organizational efficiency. Additionally, the study suggests that fostering a supportive work environment can boost employee satisfaction and personal growth, contributing to the achievement of organizational goals and objectives.

Keywords: *Corporate governance, perceived performance, transparency, accountability, fairness, discipline, responsibility*

INTRODUCTION

Corporate governance refers to the systems, guidelines, and procedures that direct and control business operations, focusing on the relationships among stakeholders like shareholders, management, and the board of directors. Nyaupane (2020) found that the primary goals of firm are to ensure accountability, fairness, integrity, and transparency in decision-making processes and ultimately aiming to increase shareholder value while balancing the interests of all stakeholders.The importance of corporate governance has grown, particularly after numerous corporate fraud cases in both developed and developing countries. Effective governance frameworks are essential for improving organizational performance and safeguarding the interests of stakeholders. This is especially critical in the banking sector, where poor governance practices can lead to severe economic consequences. For instance, the 2008 global financial crisis highlighted how inadequate corporate governance in major U.S. banks contributed to widespread economic instability (Bernanke, 2003; Mareinkowska, 2017).

Good corporate governance not only fosters productivity and a long product life cycle but also plays a crucial role in shaping the social and economic lives of communities through specific governance institutions. It outlines the distribution of rights and responsibilities among the board, managers, shareholders, and other stakeholders, promoting healthy market practices and reducing financial irregularities caused by agency problems (Syangbo, 2021).

Moreover, corporate governance has evolved to include best practices and codes developed by organizations such as the OECD and Basel, focusing on board responsibilities, internal controls, related party transactions, and conflict of interest management (Cabraal, 2014). In the contemporary business environment, governance also addresses environmental, social, and governance (ESG) issues. This shift reflects the growing public expectation for companies to adopt sustainable and responsible practices, which not only prevent environmental and social risks but also attract socially conscious investors, thereby enhancing financial performance (Cumming et al., 2021; Karwowski&Raulinajtys, 2021).

The primary goal of this study is to evaluate corporate governance practices in Nepalese commercial banks, with specific objectives to assess the current status of these practices in selected banks, analyze the relationship

between various corporate governance elements and organizational performance, and examine the impact of corporate governance on perceived performance.This study examines the critical connection between corporate governance and bank performance, particularly in Nepalese commercial banks, where strong governance practices are linked to improved financial outcomes. It aims to enhance understanding of how governance influences organizational performance, providing practical insights for banks to refine their governance structures and benchmark against best practices. The research will provide strategic insights for policymakers to develop stronger regulatory frameworks, contributing to improved governance in the banking sector. It will also add valuable empirical data to existing literature, serving as a critical educational resource for understanding governance and performance linkages (Ortega-Rodríguez et al., 2020; Wirasandhi et al., 2023). By identifying governance factors with the most significant impact on bank performance, the study aims to boost investor confidence by emphasizing the role of effective governance in enhancing transparency and accountability (Arifudin, 2019).

LITERATURE REVIEW

This section has discussed the impact corporate governance on the perceived performance. By examining relevant studies and findings from various researchers, it aims to shed light on the complex relationship between corporate governanceand organizational performance. The literature reviewed includes an analysis of different ownership structures and board configurations, which are crucial for understanding how governance practices can influence performance outcomes in the banking sector.

The concept of governance, originating from the Greek word "Kubernao," meaning "to steer," encompasses social and institutional aspects of business management and gained prominence in the 1990s through economists and political scientists, with expansion by organizations like the UNO, IMF, and World Bank (Smith, 2006; Berle & Means, 1992). Corporate governance, rooted in economic theory and the "theory of the firm," addresses issues of ownership and control, as highlighted by Smith (2006) and further explored by Berle and Means (1992) in their discussion on the separation of ownership and control in corporations. Coase (1937) introduced the concept of transaction costs, providing a framework for understanding firm structures. The importance of corporate governance, especially

in financial institutions, has been underscored by the global debate on governance fueled by privatization, mergers, deregulation, and financial crises, leading to initiatives like the Cadbury Committee in the UK (Galbraith, 1973; Freixas & Rochet, 2008). Agency theory, particularly relevant in banking, explores the principal-agent problem, where conflicting interests can threaten financial stability (Scott, 1998; Kern, 2004). Anderson and Campbell (2004) emphasized that while governance alone did not cause the financial crisis, effective governance could have mitigated its effects. Overall, corporate governance is essential for organizational success, requiring a committed and proactive approach to ensure ethical behavior, accountability, and effective decision-making.

In their examination of corporate governance ideas for the OECD, Hawley and Williams (1998) distinguished four main theories: agency, stewardship, stakeholder, and political models.Agency theory focuses on balancing managers' interests with those of owners to mitigate agency problems arising from self-serving managerial behavior, which can lead to increased costs and weak governance. Conversely, stewardship theory emphasizes enhancing governance by involving non-executive directors and viewing managers as stewards motivated to maximize business profits and shareholder returns (Donaldson & Davis, 1991; Davis, Schoorman, & Donaldson, 1997). Stakeholder theory expands the scope by arguing that governance ought to take into account the interests of all parties involved, not only shareholders, such as consumers and the community. Political theory recognizes the impact of political conditions and governmental activities on corporate governance and highlights the role of stakeholders in determining the distribution of corporate power.

The Nepalese financial sector's ongoing consolidation highlights the increasing importance of corporate governance, which remains under-researched in Nepal despite its growing recognition in developing economies (Levine, 2004; Oman, 2001; Lin, 2001). Effective corporate governance is crucial for addressing public policy goals, such as reducing vulnerability to financial crises, lowering transaction costs, and fostering capital market development, which in turn can attract Foreign Direct Investment (FDI) and improve economic measures like GDP growth (Sapkota, 2008). However, poor governance has contributed to financial sector crises in Nepal, as seen in the failures of several banks due to governance issues and promoter conflicts (Sapkota, 2011). Research by Pradhan

and Adhikari (2009) found that strong governance practices, including timely AGMs and quality auditing, are associated with better firm performance. Additionally, the concentration of corporate ownership and dominance of family businesses have hindered good governance in Nepal (Armstrong & Spellman, 2009). The global rise in corporate governance importance is driven by factors such as privatization, the influence of institutional investors, mergers, deregulation, and economic crises, all of which underscore the need for robust governance practices (Becht, 2007).Shrestha (2011) found that governance played a negligible role in the performance of banks in Nepal. Ghimire (2010) further analyzed the relationship between corporate governance variables, such as institutional ownership and public director roles, with firm performance, finding a positive impact on firm value. Research in various regions, including studies by Wang and Cao (2022) on Taiwanese banks and by Al-Matari et al. (2014) on governance factors like board size and CEO tenure, highlighted the nuanced influence of corporate governance on financial performance. While some studies, such as those by Kabara and Modibbo (2020) and Amin and Nor (2019), indicated that factors like ethnic diversity had minimal or insignificant impacts on performance, others, including Gul et al. (2016), suggested that moderate ethnic diversity could enhance board monitoring. Additionally, research on corporate governance in other sectors, such as by Chilumuri and MBA (2013) on the State Bank of India, emphasized the importance of governance in improving various operational aspects. Overall, the literature reveals a complex relationship between corporate governance and performance across different contexts (Ghimire, 2010; Shrestha, 2011; Wang & Cao, 2022).

Based on the facts and understandings from past research endeavors, the following hypotheses were developed.

H1: *There is a significant positive relationship between transparency and perceived performance of commercial bank in Nepal.*

H2: *There is a significant positive relationship between accountability and perceived performance of commercial bank in Nepal.*

H3: *There is a significant positive relationship between fairness and perceived performance of commercial bank in Nepal.*

H4: *There is a significant positive relationship between discipline and perceived performance of commercial bank in Nepal.*

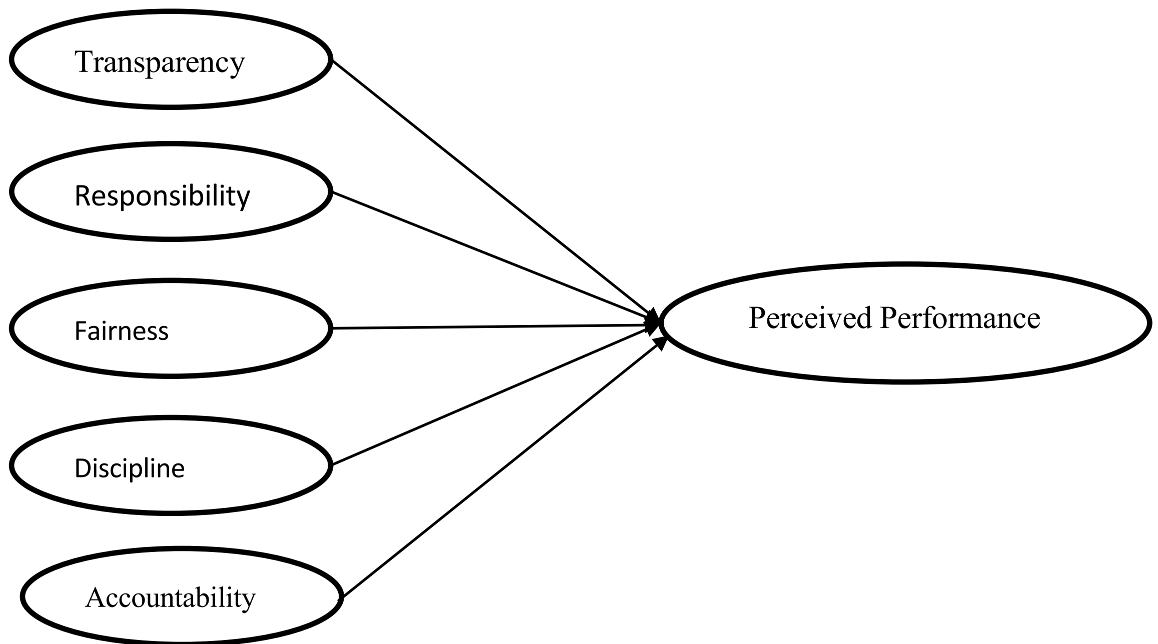
H5: There is a significant positive relationship between responsibility and perceived performance of commercial bank in Nepal.

Conceptual Framework

The study uses a conceptual framework to visualize the relationship between several independent variables (transparency, responsibility, discipline, fairness, and accountability) and a dependent variable (perceived performance). This framework indicates that these factors contribute to corporate governance and ultimately influence perceived performance.

Figure 1

Conceptual Framework



Independent Variables **Dependent Variable**

Source: Bhagat and Bolton(2008)

Transparency involves openness in sharing information, fostering trust among stakeholders (Ortega-Rodríguez et al., 2020; Wirasandhi et al., 2023). Responsibility ensures ethical and effective fulfillment of duties (Wirasandhi et

al., 2023), while accountability emphasizes justifying actions to maintain trust (Ortega-Rodríguez et al., 2020). Fairness ensures equity in decision-making (Nurhikmayanti, 2017, as cited in Arifudin, 2019). Discipline entails adherence to rules for efficiency (Matei&Iwinska, 2014, as cited in Arifudin, 2019), and regulations provide legal frameworks for compliance (Arifudin, 2019). Together, these variables impact perceived performance, reflecting stakeholders' evaluation of organizational success (Wirasandhi et al., 2023).

METHODS

The impact of corporate governance policies on the perceived performance of commercial banks in Nepal was investigated using a quantitative methodology that combined descriptive and causal-comparative research approaches in order to meet the study's objectives. The sample of 200 employees from five public and private banks in the Kanchanpur district were chosen for the study. According to Krejcie and Morgan (1970), a sample size of around 200 is appropriate for populations of several hundred to a few thousand when aiming for a 95% confidence level with a 5% margin of error.The sample includes employees from various management levels with knowledge of corporate governance. Convenience sampling was used for data collection due to its simplicity and efficiency.The research used primarydata to build a theoretical framework, primary data was collected through a structured questionnaire with multiple-choice questions and rating scales. The questionnaire assessed six variables: five independent variables (transparency, responsibility, fairness, discipline, and accountability) and one dependent variable (perceived performance). SPSS software was used to analyze the data, with responses gathered on a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). The questionnaire was divided into two sections: demographic information and questions on corporate governance determinants.Descriptive statistics was used for showing the respondent’s profile. These statistics included frequency counts and percentages. To test theories and illustrate data, statistical techniquesPearson's correlations, and linear regression were employed. Multiple regression examined the impact of independent variables on the dependent variable, while correlation analysis evaluated relationship between variables.The regression equation for this analysis is represented as:

$$Y=\alpha+\beta1X1+\beta2X2+\beta3X3+\beta4X4+\beta5X5+ei$$

Where:

- Y= Perceived Performance (dependent variable)
- X1= Transparency
- X2= Responsibility
- X3= Discipline
- X4 = Fairness
- X5= Accountability
- α = Constant term
- $\beta1,\beta2,\ldots,\beta5$ = Regression coefficients for each independent variable
- e_i = Error term

RESULTS AND DISCUSSION

Respondent Profile

A respondent profile provides a detailed description of the demographic and background characteristics of individuals participating in a study, such as gender, age, marital status, education, and occupation. It helps researchers understand the sample composition, assess its representativeness, and identify potential biases. By segmenting the data, researchers can explore how different groups may have varying opinions or experiences, offering insights into how factors like age or education influence perceptions and behaviors. Overall, the respondent profile is essential for ensuring the validity and reliability of survey research findings.

Table 1

Respondent Profile

Description		No. of Respondent	Percentage
Gender	Male	104	52%
	Female	96	48%
Age	Below 20	3	1.50%
	21-30	59	29.50%
	31-40	104	52.00%
	Above 40	34	17.00%
Marital Status	Single	91	45.50%
	Married	109	54.50%
Academic Qualification	Higher Secondary	1	0.50%
	Undergraduate	17	8.50%
	Graduate	105	52.50%
	MPhil/PhD	77	38.50%

The sample of 200 respondents is characterized by a nearly balanced gender distribution, with 52% male and 48% female. Age-wise, the majority (52%) are aged 31-40, followed by 29.5% aged 21-30, while 17% are above 40 and only 1.5% are under 20. This middle-aged concentration provides diverse insights across life stages. In terms of marital status, 54.5% are married, and 45.5% are single, which may influence factors such as personal responsibilities and work-life balance. The respondents are also well-educated, with 52.5% holding a graduate degree and 38.5% having education beyond graduation, which likely impacts the depth of their responses.

Table 2

Correlation Analysis

Variable	TP	AC	FR	DS	RS	PP
TP	1					
AC	0.328**	1				
FR	0.597**	0.540**	1			
DS	0.623**	0.350**	0.491**	1		
RS	0.772**	0.440**	0.629**	0.728**	1	
PP	0.817**	0.324**	0.572**	0.659**	0.805**	1

TP=Transparency, AC=Accountability, FR=Fairness, DS=Discipline, RS= Responsibility; PP=Perceived Performance

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

The Pearson Correlation coefficients show how perceived performance, discipline, accountability, fairness, and transparency are related to one other. Transparency and perceived performance have a significant positive correlation (0.817), suggesting that higher levels of transparency are associated with higher performance perceptions. Accountability, on the other hand, has a poor association with perceived performance (0.324). At 0.572, fairness shows a moderate to strong positive association, suggesting that improved perceived performance is typically correlated with greater fairness. Additionally, discipline shows a substantial positive connection (0.659), suggesting that better perceived performance is linked to effective discipline. Lastly, accountability reveals a substantial positive association at 0.805, demonstrating that greater responsibility is associated to better perceived performance. Overall, this analysis underscores the significant relationships among these factors and their contributions to the perception of performance.The Pearson Correlation coefficients demonstrate how perceived performance, discipline, accountability, fairness, and transparency are interrelated. This aligns with findings by Bovens (2007), who emphasized the role of accountability in improving organizational performance. Transparency's strong positive correlation with performance is consistent with Piotrowski and Van Ryzin (2007), who highlighted its significant role in enhancing perceptions of performance. Similarly, fairness's moderate to strong correlation with performance aligns with Colquitt et al. (2015), who found that perceptions of fairness are crucial for organizational success.

Hypothesis Result

The analysis presented in Table 2 exposes that the Pearson Correlation Coefficient for transparency and perceived performance is $r = 0.817$, indicating a strong positive correlation that is statistically significant at the 5% level, as the p-value is less than 0.05 ($0.001 < 0.05$), leading to the acceptance of H1. For accountability and perceived performance, the coefficient is $r = 0.324$, suggesting a moderate-to-high positive correlation, also significant at the 5% level with a p-value below 0.05 ($0.001 < 0.05$), resulting in the acceptance of H2. The correlation between fairness and perceived performance is $r = 0.572$, indicating a positive correlation, which is significant at the 5% level with a p-value under 0.05 ($0.001 < 0.05$), thereby accepting H3. The coefficient for discipline and perceived performance is $r = 0.659$, reflecting a strong positive correlation that is significant at the 5% level,

as the p-value is less than 0.05 (0.001 < 0.05), leading to the acceptance of H4. Lastly, the correlation between responsibility and perceived performance is r = 0.805, demonstrating a strong positive correlation that is statistically significant at the 5% level with a p-value below 0.05 (0.001 < 0.05), resulting in the acceptance of H5.

Regression Analysis

By analyzing the relationships between independent and dependent variables, regression analysis can provide insight into the type and strength of these relationships. It estimates the effects of changing independent variables on the dependent variable and quantifies those effects.

Table 3

Model Summary

Model	R	R Square	AdjustedR Square	Std.Errorofthe Estimate
1	.866[a]	0.751	0.749	0.439

a. Predictors:(Constant), Total responsibility, Total Accountability, Total Discipline, Total Transparency, Total Fairness:

Table 3 presents the model summary, which includes the coefficient of determination (R-squared) and the adjusted R-squared. The R-squared value is 0.751, meaning that 75% of the variability in perceived performance is explained by the independent variables. The remaining 25% of the variability is not explained by the model, suggesting that there are other factors influencing perceived performance that are not included in this study. The R-squared value of 0.751 indicates that 75% of the variability in perceived performance is explained by the independent variables, which is considered a strong model fit (Hair et al., 2019). The remaining 25% of unexplained variance suggests the presence of other influencing factors not captured by the model. This finding aligns with previous studies that acknowledge the limitation of R-squared in explaining all possible determinants of complex outcomes like perceived performance (Field, 2013). The adjusted R-squared value of 0.749 accounts for the degrees of freedom and confirms that 74.9% of the variation in perceived performance is explained by the independent variables.The adjusted R-squared value of 0.749 further supports the model’s explanatory power, accounting for degrees of freedom and validating the fit of the model (Tabachnick & Fidell, 2019).The standard error of the estimate is

0.439, indicating the average distance between the observed values and the regression line.

Table 4

ANOVA[a]

Model		Sumof Squares	df	Mean Square	F	Sig.
1	Regression	461.585	5	92.317	478.474	.000[b]
	Residual	153.195	794	0.193		
	Total	614.780	799			

a. DependentVariable:Totalperceivedperformance
b. Predictors:(Constant), Totalresponsibility,TotalAccountability,Total Discipline,TotalTransparency,TotalFairness

Table 4 provides the ANOVA results, which assess the overall significance of the regression model. The F-value is 478.474 with a p-value of 0.000, which is less than the alpha level of 0.01. This indicates that the regression model significantly predicts the dependent variable (perceived performance). In other words, at least one of the independent variables (transparency, responsibility, discipline, fairness, accountability) significantly contributes to explaining the variance in perceived performance.

Table 5

Beta Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.638	0.085		7.512	0.000
Transparency	0.486	0.031	0.458	15.448	0.000
Accountability	-0.079	0.029	-0.083	-2.708	0.007
Fairness	0.125	0.029	0.148	4.257	0.000
Discipline	0.088	0.025	0.091	3.472	0.001
Responsibility	0.334	0.035	0.329	9.663	0.000

Beta Coefficients

Table 5 shows the beta coefficients from the regression analysis, which indicate the impact of each independent variable on the dependent variable. The estimated regression equation is:

$$Y=0.638+0.486X1-0.079X2+0.125X3+0.088X4+0.334X5+ei$$

Where:

- Y= Perceived Performance (dependent variable)
- X1 = Transparency
- X2 = Responsibility
- X3 = Discipline
- X4 = Fairness
- X5 = Accountability
- α = Constant
- β1,β2,β3,β4,β5 = Regression coefficients of Transparency, Responsibility, Discipline, Fairness, and Accountability, respectively
- ei = Error term

The result shows that accountability is not significant ($p > 0.05$), while discipline, fairness, and responsibility are important independent variables determining perceived performance. According to regression analysis, accountability ($\beta5 = 0.334$, $p = 0.000$), fairness ($\beta3 = 0.125$, $p = 0.000$), discipline ($\beta4 = 0.088$, $p = 0.001$), and transparency had the biggest beneficial effects on perceived performance. Notably, an increase in accountability results in a 0.079 unit fall in perceived performance, while an increase in transparency boosts perceived performance by 0.486 units.

DISCUSSION

The study highlights a positive correlation between the independent variables—transparency, responsibility, discipline, fairness, and accountability—and perceived performance, with discipline and responsibility having the strongest

influence. This finding aligns with existing research that emphasizes the critical role of corporate governance practices in enhancing organizational performance. Discipline and responsibility are essential in promoting ethical behavior and decision-making within firms, which in turn contributes to improved performance (Fama & Jensen, 1983; Tricker, 2015). Studies have shown that transparency and responsibility foster trust, reduce agency costs, and align the interests of stakeholders, ultimately benefiting organizational outcomes (Aguilera et al., 2008).

In contrast, the study finds that accountability does not significantly affect perceived performance, a result that diverges from previous work suggesting its importance in corporate governance. Accountability is often seen as a key determinant of corporate success by ensuring that managers are answerable for their actions, which reduces the risk of unethical behavior and improves performance (Kaptein, 2008). Similarly, Miles (2010) and Ilyas and Rafiq (2012), which underscore the importance of corporate governance aspects but suggest that some variables, like discipline and responsibility, are more critical in this context. One possible explanation for the lack of significance in this study may be the specific context or the way accountability was measured, as its effects can often be indirect and mediated by other governance factors (Tricker, 2015). The findings are in line with the work of Fama and Jensen (1983) and Aguilera et al. (2008), who argue that strong governance mechanisms, including responsibility and discipline, play a pivotal role in improving firm performance by enhancing decision-making and safeguarding shareholder interests. These results reinforce the view that effective governance structures are crucial for ensuring long-term corporate success (Kaptein, 2008).

CONCLUSION

The research aimed to explore the relationship between corporate governance and its related variables. It reviewed existing literature to identify key factors influencing corporate governance, drivers of effective governance, and methods to measure its impact. Using a sample of five commercial banks in Nepal, the study assessed the state of corporate governance, evaluated perceived performance, and analyzed the impact of governance practices on performance.This study explored the corporate governance practices of Nepalese commercial banks and their relationship with perceived performance, focusing on key variables: transparency,

accountability, discipline, fairness, and responsibility. The findings confirmed a significant link between corporate governance and bank performance, suggesting that improving governance is essential for better outcomes. While transparency, responsibility, discipline, and fairness significantly impact perceived performance, accountability was found to have a lesser effect.

The study also identified issues such as the lack of distinction between the board of directors and management, dissatisfaction with the audit committee, and infrequent board meetings. Despite the existence of a written code of conduct, its implementation was often lacking. The research emphasizes the importance of corporate governance, especially in the banking sector, where it affects information disclosure and organizational effectiveness. Strong governance, particularly in areas like responsibility, discipline, and fairness, can greatly benefit banks, though accountability's impact appears limited. The study concludes that top management should prioritize corporate governance to enhance customer satisfaction and overall success.

The study recommends enhancing transparency, responsibility, and accountability in Nepalese banks, with a focus on improving disciplinary actions and corporate governance practices. Future research should include more corporate governance factors, a larger sample size, and cover regions beyond the Kanchanpur for better generalization. Expanding the sample to include more banks across Nepal and incorporating interviews alongside surveys could provide deeper insights into governance's impact on organizational success. Policymakers and top management should prioritize governance improvements to boost customer satisfaction and overall performance.

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