Audit Committee and Tobin's Q as a Measure of Firm Performance Among Nepalese Commercial Banks

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Abstract

The study examines the impact of audit committee on the performance of Nepalese commercial banks. Tobin's Q and return on assets are selected as the dependent variables. The selected independent variables are audit committee size, audit committee meeting, audit committee meeting allowance, gender diversity, board size and leverage. The study is based on secondary data of 16 commercial banks with 111 observations for the study period from 2015/16 to 2021/22. The data were collected from Banking and Financial Statistics published by Nepal Rastra Bank, reports published by Ministry of Finance and annual report of respective banks. The correlation coefficients and regression models are estimated to test the significance and importance of audit committee size, audit committee meeting, audit committee meeting allowance, gender diversity, board size and leverage on the performance of Nepalese commercial banks.

The study showed that board size has a positive impact on Tobin's Q and return on assets. It implies that increase in board size leads to increase in Tobin's Q and return on assets in Nepalese commercial banks. Further, gender diversity in the audit committee has a negative impact on Tobin's Q and return on assets. This indicates that higher the number of females in the audit committee, lower would be the Tobin's Q and return on assets. Similarly, the study showed that audit committee size has a negative impact on Tobin's Q which indicates that increase in audit committee size leads to decrease in Tobin's Q. Whereas, audit committee size has a positive impact on return on assets. It means that increase in audit committee size leads to increase in return on assets. Moreover, leverage has a positive impact on Tobin's Q. It shows that higher the level of leverage ratio in the banks, higher would be the Tobin's Q. However, leverage has a negative impact on return on assets indicating higher the level of leverage ratio in the banks, lower would be the return on assets.

Keywords: audit committee size, audit committee meeting, audit committee meeting allowance, gender diversity, leverage, board size

1. Introduction

Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholders value (Saad, 2010). The characteristics of competition, high regulation, agency problems and high information

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asymmetric of banking system led to the intense concern about the corporate governance in banking system (Nworji *et al*., 2011). Corporate governance is a system that regulates a company to be operated and controlled properly. The implementation of corporate governance arises because of a conflict of interest that occurs between the principal and the agent which encourages the agent to present false information, especially if the information is related to the performance of the agent (Soleman, 2013). Good corporate governance implementation is believed to improve company performance. In addition, corporate governance is one of the strategies to maximize profits and attract investors (Yendrawati and Pratidina, 2015).

Corporate governance is all about the relationship between the owners and managers in directing and controlling companies as separate entities. According to Hasibuan and Khomsiyah (2019), corporate governance is a system for directing and controlling business entities, whether they are in the public, private, or financial sectors, to achieve long-term strategic goals, care for the welfare of their workers and the community, maintain cordial relationships with their suppliers and customers, and work in compliance with the legal framework that is in place in the nation. It also uses production methods that produce the least amount of waste possible (Yuniarsih, 2019). With the wave of corporate scandals, corporate disclosure and transparency have become progressively more important not only to investors but also to companies. This is because transparency improves, among others, the compliance with the disclosure guidelines (Arif *et al*., 2020), reporting creadibility (Arthur *et al*., 2017), quality of the accounting information (Tshipa *et al*., 2018), financial performance (Alipour *et al*., 2020), credit rating (Cash, 2018), and company's reputation (Bacha and Ajina, 2019).

Abdeljawad *et al.* (2020) examined that how the presence of an audit committee is associated with other corporate governance mechanisms, i.e., board structure, ownership structure and quality of external audit. The study found that board independence, the distinction between the chairman and chief executive officer function, ownership concentration and audit quality enhance the chance of audit committee formation, implying complementary effect. Afza and Nazir (2014) explored the influence of audit committee characteristics on a firm's financial performance in the context of Pakistan. The results of panel data showed that two audit committee characteristics namely audit committee size and external audit quality has strong and significant positive impact on ROA and Tobin's Q. Another two variables namely audit committee independence and AC activity remains insignificant, which is consistent with mostly previous studies carried in different countries. Al-Matari *et al.* (2014) examined the association between two important committees of corporate governance practice namely, audit committee characteristics and executive committee characteristics, and firm performance. This study revealed a positive relationship between audit committee size (ACSIZE), audit committee independence (ACINDE) and executive committee size (ECSIZE) and firm performance but not significant. The study further found the relationship between firm size (FIRMSIZE) and firm performance to be positively significant while the relationship between leverage (LEVERAGE) and firm performance was found to be negatively significant.

Al-Ahdal and Hashim (2021) analyzed the influence of audit committee characteristics and external audit quality on the performance of non-financial public limited companies listed on the National Stock Exchange. The study concluded that there is lack of evidence to show that audit committee characteristics improve the performance of top Indian non-financial listed firms. However, external audit quality was found to have a significant positive impact on the financial performance of firms as measured by Tobin's Q, while firm size and leverage were found to have a significant impact on the financial performance of firms as measured by return on assets and return on equity. Alawaqleh *et al.* (2021) examined the association between the chief executive officer tenure and audit quality, the relationship between chief executive officer duality and audit quality, the association between board independence and audit quality, the relationship between board size and audit quality, and the role of controlling variables (client size, leverage debt, and business complexity) in controlling these relationships. The results revealed a negative relationship, but not significant between CEO tenure and independent directors with audit quality. In addition, the results showed there is a negative effect of CEO duality on audit quality; also, the results revealed that there is a statistically significant effect on the board of directors (board size) on the audit quality.

Al-Jalahma (2022) investigated the impact of audit committee independence, size, and meeting frequency on company performance (employing ROE, ROA, and Tobin's Q). The study revealed that companies with independent audit committees and big audit committees in terms of size are performing poorly. It is also shown that the number of audit committee meetings does not affect company performance. Al-Matari *et al.* (2012) examined the association between the internal corporate governance mechanism related to the board of directors, the audit committee characteristics and the performance of the Saudi companies listed in the Saudi Stock Exchange (TADAWL), excluding financial companies. The study found that audit committee size is found to have a negatively significant relationship with firm performance and, CEO duality, board size, audit committee independence, audit committee meeting were found to have positively insignificant relationship with firm performance.

Banking and finance sector is the backbone of any country economy. It is one of the most knowledge-intensive sectors within any country economy (Nawaz, 2019). Banks being the financial services providers profoundly rely on intangible assets to maintain quality service as well as profitability in the ever-challenging business environment. Banks are relatively opaque, complex, and skill-intensive organizations, largely driving their profits from intangible assets (Nawaz *et al*., 2021). Corporate outcomes which financial performance is but one of them profoundly relies on good governance mechanisms to constrain agency problem and moral hazard. The significance of corporate governance is well recognized in the banking (De Cabo *et al*., 2012; Pathan and Faff, 2013) and non-banking sectors, including third sector organizations.

Alqatamin (2018) analyzed the influence of audit committee characteristics like size, independence, gender diversity, experience and frequency of meetings on the company's performance of 165 non-financial companies listed on the Amman Stock Exchange (ASE) over the period 2014-2016. This study revealed that audit committee size, independence and gender diversity have positively significant relationship with firm performance, however experience and frequency of meetings has an insignificant relationship with firm performance. Amahalu and Obi (2020) examined the effect of audit committee size, audit committee independence, and audit committee financial expertise on return on assets. The study revealed that audit committee size, audit committee independence and audit committee financial expertise have a significant positive effect on return on assets at 5% significant level respectively. Likewise, Aryan (2015) aimed to highlight the role of audit committee and external audit in enhancing companies' profitability. This study revealed a positive relationship between audit committee meeting, audit committee size and companies' profitability, while no significant relationship between audit committee composition, audit committee members literacy, audit quality and companies' profitability.

Ashari and Krismiaji (2020) assessed the effect of audit committee characteristics, which includes independence, size, competence, and frequency of meetings on the financial performance of manufacturing firms listed on the Indonesian Stock Exchange for the year of 2016 and 2017. The study reported that all the audit committee characteristics have a positive effect on the financial performance. Similarly, Asiriuwa *et al*. (2018) examined audit committee attributes and audit quality with emphasis on the specific requirements of the 2011 SEC code. The study revealed that audit committee size, frequency of meetings, number of expertise and overall effectiveness all have a positive relationship with audit quality. However, only size and overall effectiveness was significant in their relationship. Bagais and Aljaaidi (2020) examined the relationships of audit committee size, audit committee meetings and audit quality with corporate performance among the energy industry in Saudi Arabia using 54 firm-year observations for the period ranging from 2005 to 2018. The study reported that audit committee size is positively associated with corporate performance in the both return on assets and return on equity. As for the audit committee meetings, there is a negative relationship with the ROE model, while this relationship has not been reported by the ROA model. Moreover, Bala and Kumai (2015) analyzed the influence of audit committee characteristics like size, independence, financial expertise, AC meetings on earnings quality of listed food and beverages Firms in Nigeria. The study reported a negative significant relationship between audit committee size, independence, financial expertise, and audit committee meetings and earnings management.

Balagobei (2018) examined the impact of corporate governance which is measured by board size, board independence, CEO duality, director's ownership and audit committee on the firm performance which is measured by ROA and Tobin's Q. The results revealed that the board size and audit committee have a significant impact on ROA and board size has significant impact on Tobin's Q, whereas board independence, CEO duality and director's ownership have insignificant impact on both firm performance measures such as ROA and Tobin's Q. Further, Bansal and Sharma (2016) investigated the role of audit committee characteristics (independence and frequency of meetings) in addition with other components of corporate governance (duality, promoter shareholding, board composition, and board size) in improving firm performance. The study revealed that there is significant positive association of board size and CEO-Chairman dual role with firm performance. Dakhlallh *et al.* (2020) examined the effect of the audit committee size, independence, financial expertise, and stock owned by audit committee on firm performance measured by Tobin's Q among Jordanian companies. The study found that the size of the audit committee, the independence of the audit committee, and the financial expertise of the audit committee have a positive and significant relationship with firm performance. In addition, Safari Gerayli *et al.* (2021)

studied the association between certain audit committee characteristics like independence and financial expertise with financial reporting quality (FRQ) of the firms listed on the Tehran Stock Exchange (TSE). The study reported that audit committee independence has no significant effect on corporate FRQ, whereas audit committee's financial expertise significantly improves firms' FRQ. Hassan *et al.* (2017) examined the relation between audit committee and a set of other corporate governance mechanisms in one of the emerging economies, United Arab of Emirates (UAE). The study found that AC effectiveness appeared to be positively associated with board size and board independence, it is negatively associated with CEO duality.

Jerubet *et al.* (2017) examined the effect of audit committee characteristics that are: size, independence on quality of financial reporting among firms listed in Nairobi Securities Exchange, Kenya. The study found that audit committee size has a positive and significant effect on the quality of financial reporting and audit committee independence has a negative and significant effect on the quality of financial reporting. Similarly, Khudhair *et al.* (2019) explored the impact of internal and external governance mechanisms such as board size, audit committee independence, audit committee expertise, and audit committee meetings on the quality of audit in selected firm. The results indicated that there is a positive relationship between audit quality and the percentage of non-executive directors in the audit committee. Kibiya *et al.* (2016) investigated the characteristics of audit committee (independence, share ownership and member financial expertise) and its effect on the quality of financial reporting in Nigeria. The study revealed that AC independence, AC share ownership and AC member financial expertise have positively significant relationships with financial reporting quality. Ojeka *et al.* (2014) explored the influence of audit committee effectiveness on firm's performance using four characteristics: independence, financial expertise, size, and meetings of the audit committee. The study showed that audit committee size and audit committee meeting did not add value to the firm's financial performance in Nigeria. Moreover, Oji and Ofoegbu (2017) studied the association between audit committee qualities such as members' qualification, independence and monitoring service with financial reporting of entities. The study demonstrated that there is a significant effect of audit committee qualities have a significant effect on financial reporting of entities.

Oroud (2019) investigated the relationship between audit committee characteristics (size, independence, meeting and financial expertise) and the profitability of industrial companies listed on the Amman Stock Exchange (ASE) for the years 2013 to 2017. The study revealed that the audit committee characteristics have a significant effect on profitability of the industrial companies listed on the ASE. Likewise, Osemene and Fakile (2018) examined the effectiveness of an audit committee (financial expertise, size, meetings, and independence) and its impact on financial performance of deposit money banks in Nigeria. The results showed that out of all the measures of audit committee effectiveness studied, only audit committee financial expertise and audit committee meetings have positive coefficients and significantly influence deposit money banks' financial performance. Rouf and Abdur (2011) examined the relationship between four corporate governance mechanisms (board size, board independent director, chief executive officer duality and board audit committee) and value of the firm (performance) measures (return on assets, ROA and return on equity, ROE). The results revealed a positive significant relationship between ROE and board independent director as well as chief executive officer duality. The study, however, could not provide a significant relationship between the value of the firm measures (ROA and ROE) and board size and board audit committee. Salehi *et al.* (2018) evaluated the relationship between the characteristics of the audit committee and the board and profitability among the companies listed on the Tehran Stock Exchange (TSE) in Iran. The study found that there does not exist any significant association between audit committee size and corporate financial performance, the results indicated that there is a positive and significant relationship between audit committee financial expertise and profitability. However, the outcomes showed a positive and significant association between the proportion of outside directors on the board (board independence) and profitability. Similarly, Shrivastav (2022) aimed at finding a relationship between audit committee characteristics and firm performance of companies listed on the Indian Stock Exchange. The results found that the audit committee characteristics (size, independence, and number of meetings) are in significant positive relationship with Tobin's Q. However, only the impact of audit committee size is found to have a positive and significant impact on Return on Equity (ROE). Zábojníková (2016) studied the impact of various audit committee characteristics on firm financial performance using the evidence from non-financial UK companies listed on the London Stock Exchange. The study found that the features of audit committees have an significant impact on UK firm performance. Zraiq and Fadzil (2018) examined the association between audit committee (size and meetings) and firm performance of the Jordanian firms. The study revealed a significant positive relationship between audit committee and firm performance in Jordanian listed firms.

In the context of Nepal, Goet (2022) examined the impact of corporate governance on Nepalese commercial banks' financial performance. The study concluded that the size of the board of directors, the size of the company, foreign ownership, and the credit-to-deposit ratio have all been found to have a major influence on financial success. Similarly, Sapkota and Poudel (2022) examined the link between corporate governance and market base performance of commercial banks of Nepal. The study found that boarding meeting and board size have significant negative influence on bank performance. The study further concluded that corporate governance significantly influences the market base financial performance of Nepalese commercial banks measured by Tobin's Q.

The above discussion shows that empirical evidences vary greatly across the studies concerning on the impact of audit committee and its characteristics on the firm performance. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The main purpose of the study is to examine the impact of audit committee on the performance among Nepalese commercial banks. Specifically, it examines the relationship of audit committee size, number of audit committee meetings, audit committee meeting allowance, gender diversity in audit committee, board size and leverage on the performance of Nepalese commercial banks.

The remainder of this study is organized as follows. Section two describes the sample, data and methodology. Section three presents the empirical results and the final sections draws conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 16 commercial banks for the study period from 2015/16 to 2021/22, leading to a total of 111 observations. The main sources of data include Banking and Financial statistics published by Nepal Rastra Bank, reports published by Ministry of Finance and annual report of respective banks. This study is based on descriptive as well as causal comparative research designs. Table 1 shows the list of commercial banks selected for the study along with the study period and number of observations.

Table 1

List of commercial banks selected for the study along with study period and number of observations

S. N.	Name of the banks	Study period	Observations
1	Everest Bank Limited	2015/16-2021/22	7
2	Himalayan Bank Limited	2015/16-2021/22	7
3	Kumari Bank Limited	2015/16-2021/22	7
4	Laxmi Bank Limited	2015/16-2021/22	7
5	Machhapuchchhre Bank Limited	2015/16-2021/22	7
6	Mega Bank Nepal Limited	2015/16-2021/22	7
7	Nabil Bank Limited	2015/16-2021/22	7
8	Nepal Investment Bank Limited	2015/16-2021/22	7
9	Nepal SBI Bank Limited	2015/16-2021/22	7
10	NIC Asia Bank Limited	2015/16-2021/22	7
11	NMB Bank Limited	2015/16-2021/22	7
12	Prabhu Bank Limited	2015/16-2021/22	7
13	Prime Commercial Bank Limited	2015/16-2021/22	7
14	Sanima Bank Limited	2015/16-2021/22	7
15	Siddhartha Bank Limited	2015/16-2021/22	7
16	Sunrise Bank Limited	2015/16-2021/22	6
Total number of observations			111

Thus, the study is based on the 111 observations.

The model

The model used in this study assumes that the bank's financial performance depends on audit committee and its composition. The dependent variables selected for the study are Tobin's Q and return on assets. Similarly, the selected independent variables are audit committee size, number of audit committee meetings, audit committee meetings allowance, gender diversity in audit committee, board size and leverage. Therefore, the model takes the following form:

Financial performance = *f* (AC, ACM, ACMA, GDA, BS and LEV)

More specifically,

$$\text{Tobin's } Q_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 ACM_{it} + \beta_3 ACMA_{it} + \beta_4 GDA_{it} + \beta_5 BS_{it} + \beta_6 LEV_{it} + e_{it}$$

$$ROA_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 ACM_{it} + \beta_3 ACMA_{it} + \beta_4 GDA_{it} + \beta_5 BS_{it} + \beta_6 LEV_{it} + e_{it}$$

Where,

ROA= Return on assets as measured by the ratio of net income to total assets, in percentage.

TQ = Tobin's Q as measured by the ratio of sum of market capitalization and total liabilities to total assets and total liabilities, in times.

AC= Audit committee size as measured by the number of audit members, in numbers.

ACM= Audit committee meeting as measured by the number of audit committee meetings, in numbers.

ACMA= Audit committee meeting allowance as measured by the amount of allowance of audit committee meetings, in numbers.

GDA = Gender diversity in audit committee as measured by the number of females in audit committee, in numbers.

BS= Board size as measured by the number of board members, in numbers.

LEV = Leverage as measured by the ratio of total debt to total equity, in times.

The following section describes the independent variables used in this study along with hypothesis formulation.

Audit committee size

An audit committee is a sub-group of a company's board of directors responsible for the oversight of the financial reporting and disclosure process. The credibility and fairness of financial reports issued by companies depends on the existence of an audit committee emerging from management councils of such companies. Fariha *et al*. (2022) found that audit committee size has a negative and significant relationship with Tobins' Q. It is found that audit committee size has shown a significant positive impact on firm performance (Al-Matari *et al.,* 2014; Alqatamin, 2018). An audit committee with an ideal size enables members to employ experience and expertise to satisfy the interests of shareholders (Pearce and Zahra, 1992). Likewise, Agyemang (2020) found that audit committee size and the expertise and experience of audit committee members was found to be positively correlated with return on equity. Several studies investigated the relationship between audit committee size and firm performance in both developed countries (e.g., Bozec, 2005) and developing ones (Al-Matari *et al*., 2012; Hsu and Petchsakulwong, 2010). These studies reported the negative relationship between audit committee size and firm performance. Based on it, this study develops following hypothesis:

H_1: There is a negative relationship between audit committee size and firm performance.

Number of audit committee meetings

It is the number of times the audit committee meets to discuss the relevant issues related to the firm. Salloum *et al*. (2014) suggested that the meeting frequency of audit committee members is an important factor as it helps the audit committee to hinder the financial distress of the bank. Meeting frequency plays an important role to ensure audit committee effectiveness and to ensure the integrity of financial reporting, to provide better monitoring and to review effectively the operations. Gupta and Mahakud (2021) revealed the frequency of the AC meetings and audit chair business bears an inverse relationship with performance. Beasley *et al.* (2000) revealed that AC meetings should at least be held once periodical to review the short-term report. This is because, the high frequency of AC meeting tends to reduce the financial problem (Bédard and Gendron, 2010). Likewise, Sharma *et al*. (2009) confirmed that frequency of AC meeting can increase corporate performance. Moreover, AC meetings have constantly been found to be linked with the superior quality of financial reporting (Al Daoud *et al*., 2015). In addition, Abbott *et al*. (2007) stated that three or four meetings should be held on an annual basis for the better decision making. Based on it, this study develops following hypothesis:

H_2: There is a positive relationship between audit committee meeting and firm performance.

Gender diversity in audit committee

A gender-diverse audit committee includes the representation of both male and female members of audit committee. Oradi and Izadi (2020) suggested that women perform better in a monitoring role, are more conservative and make more ethical decisions. According to Alqatamin (2018), gender diversity has a significant positive relationship with firm's performance. Chijoke-Mgbame *et al*. (2020) argued that building a critical mass of female representation enhances firm financial performance. Similarly, Omotoye *et al*. (2021) found a positive significant impact of audit committee gender diversity and audit committee expertise on Tobin Q. Syamsudin *et al*. (2017) discovered that gender diversity in both the board of commissioners and board of directors significantly affects firm value. However, Marpaung *et al*. (2022) reported that feminism of the board of directors had a negative effect on firm value, while the audit committee did not affect firm value. Based on it, this study develops following hypothesis:

H_3: There is a positive relationship between gender diversity in audit committee and firm performance.

Audit committee meeting allowance

Audit committee meeting allowance is the allowance provided to the audit members attending the meeting to cover up expenditure held for meeting. The relationship between remuneration and performance is a mixed bag. Sheikh *et al.* (2018) found a strong relationship between remuneration and performance. While, Haron (2018) found either a weak relationship or no significant relationship at all. Additionally, the meetings of boards and audit committees seemed to have an inverse association with firm performance as a result of the high director compensation in the form of an annual retainer and per meeting fees (Khatib and Nour, 2021). However, Brick *et al*. (2006) who found a significant association between the number of meetings and director compensation. Based on it; this study develops following hypothesis:

H_4: There is a positive relationship between audit committee meeting allowance and firm performance.

Board size

Board size refers to the number of people who are involved in the company's operations. Almashhadani and Almashhadani (2022) confirmed that board size, diversity in gender, ownership structure and board independence have a positive link with firm performance. Likewise, Danoshana and Ravivathani (2019) examined the impact of the corporate governance on firm performance in Sri Lanka and found that board size and audit committee size have positive impact on firm's performance. However, Rostami *et al.* (2016) stated that there is a significant negative relationship between institutional ownership and board size and return on assets. Mak and Kusnadi (2005) examined the impact of corporate governance mechanisms on the firm value by collecting data from Singapore and Malaysia. They found a negative relationship between the board size and the firm value. According to Gill and Mathur (2011), larger board size has a negative impact on the value of the Canadian manufacturing firms. Based on it, this study develops following hypothesis:

H_5: There is a positive relationship between board size and firm performance.

Leverage

Leverage is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. Margaritis and Psillaki (2010) found that leverage has a positive effect on firm performance. However, Cai and Zhang (2011) showed that changes in financial leverage negatively affect stock returns. Similarly, Giroud *et al.* (2012) showed that reducing leverage result in better performance. Antoniou *et al.* (2008) provided evidence to support the notion that the relation between financial leverage and performance is negative. Furthermore, Connelly *et al.* (2012) found that the variation in leverage is not associated with firm performance, measured as Tobin's Q. Coricelli *et al.* (2012) found a positive relation between leverage and total productivity growth. According to Ibhagui and Olokoyo (2018), the effect of leverage on Tobin's Q is positive for Nigeria's listed firms. However, there is evidence that the strength of the positive relationship depends on the size of the firm and is mostly higher for small-sized firms. Based on it, this study develops following hypothesis:

H_6: There is negative relationship between leverage and firm performance.

3. Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of the selected dependent and independent variables during the study period 2015/16 to 2021/22.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 16 Nepalese commercial banks for the study period 2015/16 to 2021/22. The dependent variables are Tobin's Q (Tobin's Q as measured by the ratio of sum of market capitalization and total liabilities to total assets and total liabilities, in times) and ROA (Return on assets as measured by the ratio of net income to total assets, in percentage). The independent variables are AC (Audit committee size as measured by the number of audit members, in numbers), ACM (Audit committee meeting as measured by the number of audit committee meetings, in numbers), ACMA (Audit committee meeting allowance as measured by the amount of allowance of audit committee meetings, in numbers), GDA (Gender diversity in audit committee as measured by the number of females in audit committee, in numbers), BS (Board size as measured by the number of board members, in numbers), LEV(Leverage as measured by the ratio of total debt to total equity, in times).

Variables	Minimum	Maximum	Mean	Std. Deviation
Tobin's Q	0.12	0.96	0.56	0.18
ROA	0.70	2.69	1.53	0.41
AC	2.00	5.00	3.20	0.50
ACM	5.00	58.00	14.38	6.88
ACMA	50000	1632000	366148.47	206565.52
GDA	0.00	2.00	0.14	0.38
BS	4.00	11.00	6.94	1.15
LEV	0.88	15.80	8.44	2.01

Source: SPSS output

Correlation analysis

Having indicated the descriptive statistics, Pearson's correlation coefficients are computed and the results are presented in Table 3.

Table 3

Pearson's correlation coefficients matrix

This table shows the bivariate Pearson's correlation coefficients of dependent and independent variables of 16 Nepalese commercial banks for the study period 2015/16 to 2021/22. The dependent variables are Tobin's Q (Tobin's Q as measured by the ratio of sum of market capitalization and total liabilities to total assets and total liabilities, in times) and ROA (Return on assets as measured by the ratio of net income to total assets, in percentage). The independent variables are AC (Audit committee size as measured by the number of audit members, in numbers), ACM (Audit committee meeting as measured by the number of audit committee meetings, in numbers), ACMA (Audit committee meeting allowance as measured by the amount of allowance of audit committee meetings, in numbers), GDA (Gender diversity in audit committee as measured by the number of females in audit committee, in numbers), BS (Board size as measured by the number of board members, in numbers), LEV(Leverage as measured by the ratio of total debt to total equity, in times).

Variables	Tobin's Q	ROA	AC	ACM	ACMA	GDA	BS	LEV
TQ	1							
ROA	0.330**	1						
AC	-0.034	0.092	1					
ACM	0.081	-0.072	-0.146	1				
ACMA	0.073	-0.134	-0.121	0.772**	1			
GDA	-0.202*	-0.213*	-0.008	-0.172	-0.009	1		
BS	0.237*	0.103	0.210*	-0.121	-0.065	-0.125	1	
LEV	0.117	-0.298**	-0.093	0.433**	0.242*	-0.129	-0.016	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 3 shows that audit committee size has a negative relationship with Tobin's Q. It means that increase in audit committee size leads to decrease in Tobin's Q. Likewise, there is a negative relationship between gender diversity and Tobin's Q. It indicates that increase in number of females in audit committee leads to decrease in Tobin's Q. However, number of audit committee meetings has a positive relationship with Tobin's Q. It means that increase in number of audit committee meetings lead to increase in Tobin's Q. Likewise, audit committee meeting allowance has a positive relationship with Tobin's Q. It means that higher the audit committee meeting allowance, higher would be the Tobin's Q. Further, this study shows that there is a positive relationship between board size and Tobin's Q. It means that increase in board size leads to increase in Tobin's Q. Likewise, leverage has a positive relationship with Tobin's Q. It shows that higher the level of leverage ratio in the banks, higher would be the Tobin's Q.

On the other hand, the result also shows that audit committee size has a positive relationship with return on assets. It means that increase in audit committee size leads to increase in return on assets. Likewise, there is a positive relationship between board size and return on assets. It means that increase in board size leads to increase in return on assets. Whereas, number of audit committee meetings has a negative relationship with return on assets. It means that increase in number of audit committee meetings leads to decrease in return on assets. Similarly, audit committee meeting allowance has a negative relationship with return on assets. It means that higher the audit committee meeting allowance, lower would be the return on assets. Furthermore, there is a negative relationship between gender diversity and return on assets. It indicates that increase in number of females in audit committee leads to decrease in return on assets. Likewise, leverage has a negative relationship with return on assets. It shows that higher the level of leverage ratio in the banks, lower would be the return on assets.

Regression analysis

Having indicated the Pearson's correlation coefficients, the regression analysis has been carried out and results are presented in Table 4. More specifically, it shows the regression results of audit committee size, number of audit committee meetings, audit committee meeting allowance, gender diversity in audit committee, board size and leverage on Tobin's Q of Nepalese commercial banks.

Table 4 shows that the beta coefficients for audit committee size are negative with Tobin's Q. It indicates that audit committee size has a negative impact on Tobin's Q. This finding is consistent with the findings of Fariha *et al*. (2022). Similarly, the beta coefficients for number of audit committee meetings are positive with Tobin's Q. It implies that number of audit committee meetings has a positive impact on Tobin's Q. This finding contradicts with the findings of Sharma *et al*. (2009). Likewise, the beta coefficients for audit committee allowance are positive with Tobin's Q. It means audit committee meeting allowance has a positive impact on Tobin's Q. This finding is similar to the findings of Sheikh *et al.* (2018). Similarly, the beta coefficients for gender diversity in audit committee are negative with Tobin's Q. It indicates that number of females in audit committee has a negative impact on Tobin's Q. This finding is consistent with the findings of Marpaung *et al*. (2022).

Moreover, the beta coefficients for board size are positive with Tobin's Q. It indicates that board size has a positive impact on Tobin's Q. This finding is not similar to the findings of Coles *et al.* (2008). Further, the beta coefficients for leverage ratio are positive with Tobin's Q. It implies that leverage ratio has a positive impact on Tobin's Q. This finding is similar to the findings of Coricelli *et al.* (2012).

Table 4

Estimated regression results of audit committee size, number of audit committee meetings, audit committee meeting allowance, gender diversity in audit committee, board size and leverage on Tobin's Q

The results are based on panel data of 16 Nepalese commercial banks with 111 observations for the period of 2015/16-2021/22 by using the linear regression model. The model is Tobin's $Q_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 ACM_{it} + \beta_3 ACMA_{it} + \beta_4 GDA_{it} + \beta_5 BS_{it} + \beta_6 LEV_{it} + e_{it}$ where, the dependent variable is Tobin's Q (Tobin's Q as measured by the ratio of sum of market capitalization and total liabilities to total assets and total liabilities, in times). The independent variables are AC (Audit committee size as measured by the number of audit members, in numbers), ACM (Audit committee meeting as measured by the number of audit committee meetings, in numbers), ACMA (Audit committee meeting allowance as measured by the amount of allowance of audit committee meetings, in numbers), GDA (Gender diversity in audit committee as measured by the number of females in audit committee, in numbers), BS (Board size as measured by the number of board members, in numbers), LEV(Leverage as measured by the ratio of total debt to total equity, in times).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		AC	ACM	ACMA	GDA	BS	LEV			
1	0.600 (5.309)**	-0.1200 (0.356)						0.008	0.184	0.127
2	0.529 (13.095)**		0.002 (0.850)					0.007	0.183	0.722
3	0.536 (15.11)**			6.468 (0.765)				0.004	0.183	0.585
4	.574 (31.576)**				-0.980 (2.151)			0.041	0.179	4.627
5	0.300 (2.893)**					0.038 (2.547)		0.048	0.178	6.486
6	0.470 (6.26)**						0.011 (1.23)	0.005	0.182	1.512
7	0.557 (4.448)**	-0.008 (0.235)	0.002 (0.803)					0.011	0.184	0.386
8	0.556 (4.415)**	-0.008 (0.232)	0.002 (0.383)	2.241 (0.167)				0.020	0.185	0.264
9	0.590 (4.718)**	-0.011 (0.302)	0.001 (0.172)	7.820 (0.850)	-0.100 (0.206)			0.011	0.182	1.302
10	0.369 (2.435)*	-0.027 (0.785)	0.001 (0.160)	5.227 (0.396)	-0.081 (1.728)	0.038 (2.473)		0.056	0.178	2.315
11	0.316 (1.924)*	-0.026 (0.744)	0.001 (0.164)	6.950 (0.519)	-0.080 (1.705)	0.037 (2.423)	0.008 (0.818)	0.053	0.178	2.035

Notes:

i. Figures in parenthesis are t-values.

ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

iii. Tobin's Q is the dependent variable.

Table 5 shows the eestimated regression results of audit committee size, number of audit committee meetings, audit committee meeting allowance, gender diversity in audit committee, board size and leverage on return on assets of Nepalese commercial banks.

Table 5

Estimated regression results of audit committee size, audit committee meeting, audit committee meeting allowance, gender diversity in audit committee, board size, and leverage on return on assets

The results are based on panel data of 16 commercial banks with 111 observations for the period of 2015/16-2021/22 by using the linear regression model. The model is $ROA_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 ACM_{it} + \beta_3 ACMA_{it} + \beta_4 GDA_{it} + \beta_5 BS_{it} + \beta_6 Lev_{it} + e_{it}$ where, the dependent variable is ROA (Return on assets as measured by the ratio of net income to total assets, in percentage). The independent variables are AC (Audit committee size as measured by the number of audit members, in numbers), ACM (Audit committee meeting as measured by the number of audit committee meetings, in numbers), ACMA (Audit committee meeting allowance as measured by the amount of allowance of audit committee meetings, in numbers), GDA (Gender diversity in audit committee as measured by the number of females in audit committee, in numbers), BS (Board size as measured by the number of board members, in numbers), LEV(Leverage as measured by the ratio of total debt to total equity, in times).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		AC	ACM	ACMA	GDA	BS	LEV			
1	1.295 (5.191)**	0.075 (0.968)						0.001	0.405	0.936
2	1.594 (17.794)**		-0.004 (0.753)					0.004	0.406	0.567
3	1.629 (20.846)**			-2.622 (0.134)				0.009	0.403	1.985
4	1.566 (38.762)**				-0.229 (2.280)*			0.037	0.398	5.199
5	1.283 (5.457)**					0.036 (1.080)		0.002	0.405	1.167
6	2.040 (12.752)**						-0.060 (3.256)**	0.080	0.389	10.600
7	1.368 (4.943)**	0.068 (0.004)	-0.004 (0.618)					0.006	0.407	0.656
8	1.385 (5.013)**	0.066 (0.849)	-0.005 (0.586)	-3.765 (1.279)				0.001	0.406	0.985
9	1.463 (5.345)**	0.061 (0.793)	-3.175 (0.000)	-2.481 (0.841)	-0.229 (2.203)*			0.034	0.398	1.979
10	1.346 (3.957)**	0.052 (0.663)	-0.001 (0.079)	-2.617 (0.881)	-0.220 (2.077)*	0.020 (0.578)		0.028	0.399	1.640
11	1.845 (5.287)**	0.039 (0.528)	-0.014 (1.480)	-4.261 (1.500)	-0.228 (2.282)*	0.026 (0.802)	-0.074 (3.682)**	0.132	0.377	3.790

Notes:

i. Figures in parenthesis are t-values.

ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

iii. Return on assets is the dependent variable.

Table 5 shows that the beta coefficients for audit committee size are positive with return on assets. It indicates that audit committee size has a positive impact on return on assets. This finding is consistent with the findings of Afza and Nazir (2014). Furthermore, the beta coefficients for number of audit committee meeting are negative with return on assets. It indicates that audit committee meeting has a negative impact on return on assets. This finding contradicts with the findings of Gupta and Mahakud (2021). Likewise, the beta coefficients for audit committee meeting allowance are negative with return on assets. It indicates that audit committee meeting allowance has a negative impact on return on assets. This finding is consistent with the findings of Qin *et al*. (2012). Similarly, the beta coefficients for gender diversity in audit committee are negative with return on assets. It indicates that gender diversity in audit committee has a negative impact on return on assets. This finding is similar to the findings of Alqatamin (2018). Moreover, the beta coefficients for board size are positive with return on assets. It indicates that board size has a positive impact on return on assets. This finding contradicts with the findings of Rostami *et al.* (2016). In addition, the beta coefficients for leverage ratio are negative with return on assets. It indicates that leverage ratio has a negative impact on return on assets. This finding is similar to the findings of Giroud *et al.* (2012).

4. Summary and conclusion

Corporate governance is important in all organizations regardless of their industry, size or level of growth. Good corporate governance has a positive economic impact on the firm as it saves the organization from various losses such as those occasioned by frauds, corruption and similar irregularities. Besides, it also spurs entrepreneurial innovation enabling the organization to better seize the economic opportunities that come its way.

This study attempts to investigate the effect of audit committee size, number of audit committee meetings, audit committee meetings allowance, gender diversity in audit committee, board size and leverage on the performance of Nepalese commercial banks. The study is based on secondary data of 16 commercial banks with 111 observations for the period from 2015/16 to 2021/22.

The study showed that audit committee size and gender diversity in the audit committee have a negative impact on Tobin's Q. However, number of audit committee meetings, audit committee meeting allowance, board size and leverage ratio have a positive impact on Tobin's Q. On the other hand, the result revealed that audit committee size and board size have a positive impact on return on assets. Whereas, number of audit committee meetings, audit committee meeting allowance, gender diversity and leverage have a negative impact return on assets. The study further concludes that audit committee meeting allowances followed by gender diversity in the audit committee are the most influencing factors that explain the changes in Tobin's Q and return on assets of Nepalese commercial banks.

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