Corporate Governance and Financial Markets: A Case of Nepalese Commercial Banks

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Abstract

The study examines the corporate governance and financial markets in the context of Nepalese commercial banks. Return on assets and return on equity are selected as the dependent variables. The selected independent variables are board size, board independence, audit committee, institutional ownership, female director, and number of meetings. The study is based on secondary data of 10 commercial banks with 110 observations for the period from 2012/13 to 2022/23. The data were collected from Banking and Financial Statistics published by Nepal Rastra Bank and annual reports of the selected commercial banks. The correlation coefficients and regression models are estimated to test the significance and importance of corporate governance and financial markets in the context of Nepalese commercial banks.

The study showed that board size has a positive impact on return on equity and return on assets. It indicates that higher the board size, higher would be the return on equity and return on assets. Similarly, board independence has a positive impact on return on equity and return on assets. It indicates that increase in board independence leads to increase in return on equity and return on assets. In contrast, audit committee has a negative impact on return on equity and return on assets. It indicates that increase in audit committee members leads to decrease in return on equity and return on assets. Likewise, number of meetings has a negative impact on return on equity and return on assets. It indicates that higher the number of meetings, lower would be the return on equity and return on assets. However, female directors have positive impact on return on equity and return on assets. It indicates that increase in female directors in the board leads to increase in return on equity and return on assets. In addition, institutional ownership has a positive impact on return on equity and return on assets. It indicates that higher the number of shares held by the entities, higher would be the return on equity and return on assets.

Keywords: board size, board independence, audit committee, number of meetings, female director, institutional ownership, return on assets, return on equity

1. Introduction

The notion of good corporate governance has garnered noteworthy attention from the general public owing to its perceived significance in upholding the financial well-being of organizations. Regulators, governments, and scholars have been more eager to study corporate governance during financial crises in an effort to reassure investors and draw in additional capital for companies (LaPorta *et al.,* 2000). Corporate governance includes an organization's policies, strategy, corporate and other structures, culture, and methods of managing its different stakeholders (Barrett, 2002). The division of ownership and administration in contemporary organizations creates a demand for corporate governance. According to Strong and Waterson's 1987 theory of agency, managers may act opportunistically in order to maximize their own welfare. Since the board of directors is in charge of governance and the creation of a company's strategy, corporate governance is utilized to administer businesses (Pass, 2004). It is anticipated that corporate governance characteristics have an impact on business performance. It should be remembered, nevertheless, that other factors outside corporate governance procedures may be included in performance evaluations. The data gathered from performance assessment helps determine how well a business achieves excellence and adds

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value. Corporate governance, according to Shleifer and Vishny (1997), is the process by which lenders to businesses ensure that they will receive a return on their financial investment. Furthermore, Gillan and Starks (1998) defined corporate governance as the framework of laws, regulations, and other elements that regulate how a business is run. A company's ability to avoid fraud and scams is greatly enhanced by good corporate governance, which also improves bank and financial outcomes. Corporate governance is the set of rules that regulate how corporations are managed, controlled, and held responsible. It deals with the interactions between a company's shareholders, board of directors, management, and other stakeholders. The likelihood of accounting frauds is significantly influenced by a company's governance, with weaker organizations having a higher risk of accounting frauds (Berkman *et al.,* 2009).

Nour *et al.* (2024) found a significant positive relationship between board of directors' independency, institutional ownership and the quality of external audit, and corporate failure reduction. Similarly, Bui and Krajcsak (2024) examined the relationship between CG performance scores and financial market. The study found a positive relationship between transparency disclosure and financial performance and a positive correlation between corporate governance and company size. Likewise, Haj-Salem *et al.* (2020) assessed the effect of corporate risk disclosure and corporate governance on firm value. The study revealed that substitution effect between CRD and CG mechanisms on the firm value. The study also revealed that family ownership, board size, independence of the audit committee, and the presence of the women on the board lead to greater firm value. Further, Kartika (2021) assessed the corporate social responsibility and firm value. The study found that good corporate governance has a positive impact on firm value. Moreover, Lakkanawanit *et al.* (2022) showed that the proportion of majority shareholder and firm size plays a key role of value creation in this group. Likewise, Heraniah (2022) revealed that board gender has a positive but an insignificant relationship with firm value as proxied by Tobin's Q, while board size has a positive and significant relationship with firm value, whereas board meetings have negative and an insignificant relationship with firm value.

Ahamad and Yahaya (2024) explored the role of corporate governance in enhancing financial stability. The study showed that large multinational corporations, which may not reflect the governance dynamics of smaller firms or those in different regulatory environments. Similarly, Musa *et al.* (2022) investigated the effect of corporate governance on risk management. The estimated result revealed a negative relationship between capital risk and corporate governance which invariably means that the capital risk goes up as corporate governance disclosure. Likewise, Erliani *et al.* (2024) investigated the impact of six elements of good corporate governance on the financial performance of state-owned enterprises (SOEs), with risk management acting as a moderating variable. This study indicated that risk management exerts a positive and significant influence on the relationship between board of directors' and the financial performance. Further, Jmaii *et al.* (2024) analyzed the influence of corporate governance on the profitability and credit risk of a sample of listed banks in Tunisia. The results revealed that as the governance index increases, the profitability of banks improves in terms of return on assets and stock market performance.

Gebhardt *et al.* (2024) indicated that disclosure quality is heavily dispersed across firms, with risk disclosure being better than disclosure of opportunities. Corporate governance factors exert distinct but mostly weak influence on climate-related disclosure quality and that institutional ownership promotes climate-related disclosure quality. Moreover, Thuy *et al.* (2024) investigated the association between corporate governance (CG) and the corporate

social responsibility (CSR). The findings suggested that enterprises with smaller board size consisting mainly of independent directors have a higher CSR disclosure level. Moreover, when the chief executive officer is concurrently the chairman of the board, the level of CSR disclosure falls. Similarly, Waheed *et al.* (2024) showed that good disclosure practices and presence of institutional ownership in corporations raise the trust of the investors by making the corporate operation clear in the eyes of the stakeholders.

Mohamed *et al.* (2013) examined the impact of corporate governance on firm performance in Egyptian listed companies. The study revealed that ownership structure has no significant impact on firm performance but board structure has a significant impact on firm performance. Similarly, Marimuthu (2008) assessed ethnic diversity on boards of directors and its implications on firm financial performance. The study revealed that ethnic diversity have positive impact on financial performance. Likewise, Mandala *et al.* (2018) determined the relationship between board structure and performance of financial institutions in Kenya. The study found that board structure and board activity operationalized as the number of meeting in a year have significant influence on performance of financial institutions. Further, Surachai and Nongnit (2019) examined the effect of board and ownership structures on the performance of the companies listed on the Stock Exchange of Thailand (SET) during the period 2001-2014. The study showed that board independence has a significant impact on corporate performance. In contrast, the study showed that board independence has a negative impact on firm performance measured by return on assets. In addition, Apochi *et al.* (2022) analyzed the ownership structure, board of directors and financial performance: An evidence in Nigeria. The study found that board size, share of women on the boards, and the independence of the board have mixed relationship with financial performance.

Karamoy and Tulung (2020) assessed the effect of financial performance and corporate governance to stock price in non-bank financial industry. The study revealed that managerial ownership, institutional ownership and the composition of the independent commissioner partially and simultaneously does not significantly influence the stock price of the non-bank financial industry. Similarly, Kapopoulos and Lazaretou (2007) examined the corporate ownership structure and firm performance from Greek firms. The study revealed that concentrated ownership structure has a positive impact on firm performance. Further, Almudehki and Zeitun (2012) examined the ownership structure and corporate performance: An evidence from Qatar. The study showed that concentrated ownership and board ownership have positive impact on firm performance measured by return on assets and return on equity. In addition, Charfeddine and Elmarzougui (2010) assessed the institutional ownership and firm performance: An evidence from France. The study found that institutional ownership has a significant but negative impact on firm performance. In addition, Chen *et al.* (2008) examined the CEO duality and firm performance. The study showed that CEO duality has a significant but negative impact on firm performance.

Duru *et al.* (2016) examined the relationship between CEO duality and firm performance: The moderating role of board independence. The study found that a joint leadership structure, i.e., CEO duality has a statistically negative impact on firm performance. Similarly, Green and Homroy (2018) analyzed the female directors, board committees and firm performance. The study revealed that there is a positive impact of female board representation on firm performance. Likewise, Kweh *et al*. (2019) assessed the board gender diversity, board independence and firm performance in Malaysia. The study found that female directors and independent directors have negative impact on firm performance. Further, Liu

et al. (2015) examined the board independence and firm performance in China. The study found that there is a positive relationship between board independence and firm performance. In addition, Qinghua *et al.* (2007) analyzed the audit committee, board characteristics and quality of financial reporting: An empirical research on Chinese securities market. The study revealed that companies, having a higher percentage of independent directors, are more likely to generate higher firm performance.

In the context of Nepal, Bajracharya *et al.* (2024) determined the current state of the Nepalese mutual fund developing market. The study found that safety and liquidity of funds impact investors' opinions of mutual fund investments. Similarly, Adiya *et al.* (2023) investigated the mediating effect of debt maturity on the relationship between good corporate governance (GCG) and financial performance. The study showed that the development of policies and procedures that promote good corporate governance and optimal debt maturity structures, leading to improved financial performance. Further, Sapkota *et al.* (2022) examined the impact of many bank-specific characteristics on the financial performance of listed commercial banks in Nepal. The study found that board size, business size, foreign ownership, and credit-to-deposit ratio have positive impact on financial performance. In addition, Pradhan (2014) analyzed the corporate governance and bank performance in Nepal. The study revealed that there is a significant impact of corporate governance on return on assets as well as return on equity in the financial institutions mainly commercial banks. The study also revealed that board size and total assets have positive and significant impact on return on assets whereas the executive CEO has an insignificant impact on return on assets.

The above discussion shows that empirical evidences vary greatly across the studies on the corporate governance and financial markets: A case of commercial banks. 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 major objective of the study is to examine the corporate governance and financial markets: A case of Nepalese commercial banks. Specifically, it examines the relationship of board size, board independence, female director, audit committee size, institutional ownership, and number of meetings with financial 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 section draws the conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 10 commercial banks for the period of 2012/13 to 2022/23, leading to a total of 110 observations. The study employed simple random sampling method. The main sources of data include Banking and Financial Statistics published by Nepal Rastra Bank and annual report of respective banks. Table 1 shows the list of commercial banks for the study along with the study period and number of observations.

Table 1

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

S. N.	Name of Commercial Banks	Study time Period	Observations
1	Agricultural Development Bank Limited	2012/13-2022/23	11
2	Everest Bank Limited	2012/13-2022/23	11
3	Nepal Bank Limited	2012/13-2022/23	11
4	Citizen Bank International Limited	2012/13-2022/23	11
5	Sanima Bank Limited	2012/13-2022/23	11
6	Machhapurchchhure Bank Limited	2012/13-2022/23	11
7	NMB Bank Limited	2012/13-2022/23	11
8	Prime Commercial Bank Limited	2012/13-2022/23	11
9	Siddhartha Bank Limited	2012/13-2022/23	11
10	NIC Asia Bank Limited	2012/13-2022/23	11
Total number of observations			**110**

Source: Annual Reports

Thus, the study is based on 110 observations.

The model

The model used in this study assumes that corporate governance depends upon financial performance. The dependent variables selected for the study are return on assets and return on equity. Similarly, the selected independent variables are board size, board independent, audit committee, number of board meeting, female director, and institutional ownership. Therefore, the model takes the following form:

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 AC_{it} + \beta_4 NOM_{it} + \beta_5 FD_{it} + \beta_6 IO_{it} + e_{it}$$

$$ROE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 AC_{it} + \beta_4 NOM_{it} + \beta_5 FD_{it} + \beta_6 IO_{it} + e_{it}$$

Where,

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

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

BS = Board size as measured by the total number of directors on the board, in numbers.

BI = Board independence is defined as the number of independent directors in the board, in numbers.

AC = Audit committee is defined as the number of audit committee member, in numbers.

NOM = Number of meeting is defined as the meeting held in a year, in numbers.

FD = Female director as measured by number of female directors in the board of directors, in numbers.

IO = Institutional ownership is defined as shares held by entities, in percentage.

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

Board independence

Board independence refers to the composition of a company's board of directors with a significant proportion of directors who have no material relationship with the company or its management. Hashmi *et al.* (2015) found that there is a positive relationship between board independence and firm performance. Similarly, Liu *et al.* (2015) examined the board independence and firm performance in China. The study showed that there is a positive

relationship between board independence and firm performance measured by return on assets and return on equity. Further, Kweh *et al.* (2019) analyzed the board gender diversity, board independence and firm performance in Malaysia. The study revealed that board independence has a positive impact on performance of firms measured by return on assets. Based on it, this study develops the following hypothesis:

H_1: There is a positive relationship between board independence and financial performance.

Board size

Board size refers to the number of members in the committee of the board of directors. Orozco *et al.* (2018) reported a negative relationship between board size and firm performance. However, Hamid and Purbawangsa (2022) showed that board size is positively correlated with firm performance. Hashmi *et al.* (2015) revealed that there is a significant positive impact of board size on firm performance. Similarly, Mandala *et al.* (2018) examined the relationship between board structure and performance of financial institutions in Kenya. The result indicated that there is a significant positive impact of board size on firm performance. Based on it, this study develops the following hypothesis:

H_2: There is a positive relationship between board size and financial performance.

Audit committee

Azizah (2020) revealed that the nature and quality of the audit committee are important factors that influence firm value. However, Hossain and TohidulAlam (2019) revealed that audit committee is negatively related to firm value. Likewise, Poudel and Hovey (2012) showed that bigger audit committee size led to better efficiency in the commercial banks. Similarly, Bhattrai (2017) revealed that audit committee size has a positive impact on financial performance of commercial banks. Based on it, this study develops the following hypothesis:

H_3: There is a positive relationship between audit committee and financial performance.

Number of meetings

A proactive board may hold frequent board meetings. According to Vafeas (1999), the link between board participation and company success may be more than linear, because increased board meetings lead to worse performance. Jackling and Johl (2009) found that board meetings and business performance is negatively associated with each other. Frequent and well-structured board meetings are essential for driving firm performance. Effective board meetings provide a platform for strategic discussions, decision-making, and oversight. Companies that hold regular, productive board meetings are better equipped to address challenges, capitalize on opportunities, and ultimately enhance their performance. The more advisory function, on the other hand, promotes business performance with increased top management oversight via regular meetings (Wai *et al.*, 2013). The study found that number of meetings of board are an insignificantly connected to performance of firms (Sobhan, 2021). Based on it, this study develops the following hypothesis:

H_4: There is a positive relationship between number of meeting and financial performance.

Female director

Female director play a crucial and influential role in organizations'. According to Sanyaolu *et al.* (2022), gender diversity in the board leads to representation of diverse viewpoints and interests in decision-making. Similarly, Marimuthu (2008) found that female on board has a positive impact on firm performance. In contrast, Dongol (2021) assessed the corporate governance framework and financial performance of Nepalese banking sector. The study highlighted that there is a negative relationship between board gender diversity on financial performance measured by return on equity and return on assets. Further, Fauzi and Locke (2012) found that female directors on the board has a positive impact on firm performance. Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between female director and financial performance.

Institutional ownership

Institutional ownership refers to the percentage of a company's shares that are held by institutional investors, such as mutual funds, pension funds, and other large investment firms. Han and Suk (1998) noted a positive link between institutional ownership and a firm's performance. In contrast, Craswell *et al.* (1997) found a negative relationship between ownership structure and corporate performance. Oehmichen *et al.* (2012) showed a positive effect of institutional ownership on financial performance. Based on it, this study develops the following hypothesis:

H_6: There is a positive relationship between institutional ownership and financial performance.

3. Results and discussions

Descriptive statistics

Table 2 presents the desscriptive statistics of selected dependent and independent variables during the period of 2012/13 to 2022/23.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 10 Nepalese commercial banks for the study period of 2012/13 to 2022/23. The dependent variables are ROA (Return on assets as measured by the ratio of net income to total assets, in percentage) and ROE (Return on equity as measured by the ratio of net income to total equity, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BI (Board independence is defined as the number of independent directors in the board, in numbers), AC (Audit committee is defined as the number of audit committee member, in numbers), NM (Number of meeting is defined as the meeting held in a year, in numbers), FD (Female director as measured by number of female directors in the board of directors, in numbers), and IO (Institutional ownership is defined as shares held by entities, in percentage).

Variables	Minimum	Maximum	Mean	Std. Deviation
ROE	3.96	21.70	9.780	2.561
ROA	0.55	9.01	1.817	0.994
BSIZE	5.00	12.00	7.555	1.289
BI	0.00	6.00	1.482	1.760
AC	1.00	6.00	3.173	0.917
NM	5.00	40.00	22.500	24.749
FD	0.00	2.00	0.564	0.534
IO	0.00	36.60	7.596	6.409

Source: SPSS Output

Correlation analysis

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

Table 3

Pearson's correlation coefficients matrix

This table shows the correlation coefficients of dependent and independent variables of 10 Nepalese commercial banks for the study period of 2012/13 to 2022/23. The dependent variables are ROA (Return on assets as measured by the ratio of net income to total assets, in percentage) and ROE (Return on equity as measured by the ratio of net income to total equity, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BI (Board independence is defined as the number of independent directors in the board, in numbers), AC (Audit committee is defined as the number of audit committee member, in numbers), NM (Number of meeting is defined as the meeting held in a year, in numbers), FD (Female director as measured by number of female directors in the board of directors, in numbers), and IO (Institutional ownership is defined as shares held by entities, in percentage).

Variables	ROE	ROA	BS	BI	AC	NM	FD	IO
ROE	1							
ROA	0.055	1						
BS	0.186	0.093	1					
BI	0.186	0.047	-0.167	1				
AC	-0.021	-0.069	0.058	0.067	1			
NM	-0.225*	-0.221*	0.022	-0.129	0.069	1		
FD	0.289**	0.049	0.088	0.060	0.118	0.352**	1	
IO	0.032	0.179	-0.106	0.001	-0.316**	-0.405**	-0.164	1

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

Table 3 shows that board size has a positive relationship with return on equity. It indicates that higher the board size, higher would be the return on equity. Similarly, board independence has a positive relationship with return on equity. It indicates that increase in number of independent directors on the board leads to increase in return on equity. Likewise, existence of audit committee on board has a negative relationship with return on equity. It indicates that increase in audit committee members leads to decrease in return on equity. In addition, number of meetings have negative relationship with return on equity. It indicates that higher the number of meetings, lower would be the return on equity. Further, female directors have a positive relationship with return on equity. It indicates that higher the female directors in the board, higher would be the return on equity. Moreover, institutional ownership has a positive relationship with return on equity. It indicates that higher shares held by entities, higher would be the return on equity.

Similarly, board size has a positive relationship with return on assets. It indicates that higher the board size, higher would be the return on assets. Similarly, board independence has a positive relationship with return on assets. It indicates that increase in number of independent directors on the board leads to increase in return on assets. Likewise, existence of audit committee on board has a negative relationship with return on assets. It indicates that increase in audit committee members leads to decrease in return on assets. In addition, number of meetings have negative relationship with return on assets. It indicates that higher the number of meetings, lower would be the return on assets. Further, female directors have a positive relationship with return on assets. It indicates that higher the female directors in the board, higher would be the return on assets. Moreover, institutional ownership has a positive relationship with return on assets. It indicates that higher shares held by entities,

higher would be the return on assets.

Regression analysis

Having analyzed the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 4. More specifically, it presents the regression results of board size, board independence, female director, audit committee size, institutional ownership, and number of meetings on return on equity.

Table 4

Estimated regression results of board size, board independence, female director, audit committee size, institutional ownership, and number of meetings on return on equity

The results are based on panel data of 10 Nepalese commercial banks with 110 observations for the period of 2012/13 to 2022/23 by using the linear regression model and the model is $ROE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 AC_{it} + \beta_4 NOM_{it} + \beta_5 FD_{it} + \beta_6 IO_{it} + e_{it}$ where, the dependent variable is ROE (Return on equity as measured by the ratio of net income to total equity, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in numbers), BI (Board independence is defined as the number of independent directors in the board, in numbers), AC (Audit committee is defined as the number of audit committee member, in numbers), NM (Number of meeting is defined as the meeting held in a year, in numbers), FD (Female director as measured by number of female directors in the board of directors, in numbers), and IO (Institutional ownership is defined as shares held by entities, in percentage).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	BI	AC	NM	FD	IO			
1	9.935	0.835						0.008	8.216	1.873
	(2.12)	(1.368)								
2	16.289		0.028					0.009	8.287	0.004
	(15.739)**		(0.063)							
3	13.421			-0.891				0.001	8.246	1.070
	(4.721)**			(1.034)						
4	16.956				-0.007			0.028	8.130	4.192
	(19.971)**				(-2.047)					
5	18.776					4.487		0.076	7.930	9.943
	(17.034)**					(3.153)**				
6	16.685						0.057	0.007	8.278	0.217
	(13.595)**						(0.466)			
7	9.691	0.853	0.076					0.001	8.253	0.942
	(1.969)	(1.371)	(0.167)							
8	9.367	0.243	0.836	-0.080				0.009	8.288	0.653
	(1.853)	(0.303)	(1.334)	(0.176)						
9	7.998	0.804	0.088	-0.963	-0.007			0.031	8.118	1.883
	(1.488)	(1.312)	(0.195)	(1.128)	(2.158)					
10	7.912	0.977	0.067	-1.167	-0.003	4.379		0.093	7.853	3.248
	(1.521)	(1.638)	(0.151)	(1.406)	(1.050)	(2.862)**				
11	10.358	0.918	0.044	-0.906	-0.005	4.348	0.132	0.093	7.855	2.862
	(1.792)	(1.531)	(0.099)	(1.038)	(1.345)	(2.840)**	(0.971)			

Notes:

i. Figures in parenthesis are t-value
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Return on equity is the dependent variable.

Table 4 shows that the beta coefficients for board size are positive with return on equity. It indicates that board size has a positive impact on return on equity. This finding is consistent with the findings of Hamid and Purbawangsa (2022). Similarly, the beta coefficients for board independence are positive with return on equity. It indicates that board independence has a positive impact on return on equity. This finding is consistent with the findings of Hashmi *et al.* (2015). In contrast, the beta coefficients for audit committee are negative with return

on equity. It indicates that audit committee has a negative impact on return on equity. This finding is consistent with the findings of Hossain and TohidulAlam (2019). Likewise, the beta coefficients for number of meetings are negative with return on equity. It indicates that number of meetings has a negative impact on return on equity. This finding is consistent with the findings of Jackling and Johl (2009). Further, the beta coefficients for female directors are positive with return on equity. It indicates that female directors has a positive impact on return on equity. This finding is similar to the findings of Marimuthu (2008). In addition, the beta coefficients for institutional ownership are positive with return on equity. It indicates that institutional ownership has a positive impact on return on equity. This finding is similar to the findings of Oehmichen *et al.* (2012).

Table 5 shows the estimated regression results of board size, board independence, female director, audit committee size, institutional ownership, and number of meetings on return on assets.

Table 5

Estimated regression results of board size, board independence, female director, audit committee size, institutional ownership, and number of meetings on return on assets

The results are based on panel data of 10 Nepalese commercial banks with 110 observations for the period of 2012/13 to 2022/23 by using the linear regression model and the model is $ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 AC_{it} + \beta_4 NOM_{it} + \beta_5 FD_{it} + \beta_6 IO_{it} + e_{it}$ 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 BS (Board size as measured by the total number of directors on the board, in numbers), BI (Board independence is defined as the number of independent directors in the board, in numbers), AC (Audit committee is defined as the number of audit committee member, in numbers), NM (Number of meeting is defined as the meeting held in a year, in numbers), FD (Female director as measured by number of female directors in the board of directors, in numbers), and IO (Institutional ownership is defined as shares held by entities, in percentage).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	BI	AC	NM	FD	IO			
1	1.275 (2.252)*	0.071 (0.970)						0.001	0.995	0.942
2	1.857 (14.899)**		0.026 (0.492)					0.007	0.998	0.242
3	2.053 (5.975)**			-0.074 (0.714)				0.004	0.997	0.509
4	1.719 (16.901)**				-0.001 (2.349)*			0.039	0.974	5.519
5	1.869 (13.477)**					0.092 (0.514)		0.007	0.998	0.264
6	1.606 (11.023)**						0.028 (1.891)	0.023	0.983	3.576
7	1.334 (2.241)*	0.067 (0.896)	0.018 (0.334)					0.009	0.999	0.522
8	1.547 (2.338)*	0.071 (0.945)	0.015 (0.274)	-0.078 (0.744)				0.013	1.001	0.532
9	1.476 (2.275)*	0.072 (0.977)	0.002 (0.036)	-0.097 (0.942)	-0.001 (2.356)*			0.029	0.980	1.805
10	1.471 (2.279)*	0.083 (1.126)	0.011 (0.213)	-0.084 (0.818)	-0.001 (2.738)**	0.278 (1.464)		0.039	0.975	1.888
11	0.488 (0.713)	0.107 (1.507)	0.021 (0.400)	0.020 (0.198)	-0.002 (3.920)**	0.291 (1.601)	0.053 (3.286)	0.122	0.932	3.521

Notes:

i. Figures in parenthesis are t-value
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Return on assets is the dependent variable.

Table 5 shows that 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 is consistent with the findings of Mandala *et al.* (2018). Similarly, the beta coefficients for board independence are positive with return on assets. It indicates that board independence has a positive impact on return on assets. This finding is consistent with the findings of Kweh *et al.* (2019). In contrast, the beta coefficients for audit committee are negative with return on assets. It indicates that audit committee has a negative impact on return on assets. This finding is consistent with the findings of Hossain and TohidulAlam (2019). Likewise, the beta coefficients for number of meetings are negative with return on assets. It indicates that number of meetings has a negative impact on return on assets. This finding is consistent with the findings of Jackling and Johl (2009). Further, the beta coefficients for female directors are positive with return on assets. It indicates that female directors has a positive impact on return on assets. This finding is not similar to the findings of Fauzi and Locke (2012). In addition, the beta coefficients for institutional ownership are positive with return on assets. It indicates that institutional ownership has a positive impact on return on assets. This finding is similar to the findings of Oehmichen *et al.* (2012).

4. Summary and conclusion

The concept of corporate governance has gained significant public interest due to its apparent importance in maintaining the economic health of corporations. During financial crises, regulators, governments, and academics have shown heightened enthusiasm for examining corporate governance to bolster investors' confidence and attract more funding to businesses. Corporate governance encompasses how an organization is managed, its corporate and other structures, culture, policies and strategies, and the ways in which it deals with its various stakeholders. The need for corporate governance arises because of the separation of management and ownership in the modern corporations. The theory of agency argues that the managers may behave opportunistically to maximize their own welfare. Since, corporate governance is used to run companies and the board of directors is responsible for governance and the development of a company's strategy.

This study attempts to examine the corporate governance and financial markets: A case of Nepalese commercial banks. This study is based on the secondary data 10 commercial banks out of 18 commercial banks leading to a total of 110 observations.

The major conclusion of this study is that board size has a positive impact on return on equity and return on assets. It indicates that higher the board size, higher would be the return on equity and return on assets. Similarly, board independence has a positive impact on return on equity and return on assets. It indicates that increase in board independence leads to increase in return on equity and return on assets. In contrast, audit committee has a negative impact on return on equity and return on assets. It indicates that increase in audit committee members leads to decrease in return on equity and return on assets. Likewise, number of meetings has a negative impact on return on equity and return on assets. It indicates that higher the number of meetings, lower would be the return on equity and return on assets. However, female directors have positive impact on return on equity and return on assets. It indicates that increase in female directors in the board leads to increase in return on equity and return on assets. In addition, institutional ownership has a positive impact on return on equity and return on assets. It indicates that higher the number of shares held by the entities, higher would be the return on equity and return on assets. Likewise, the study also concluded that female directors followed by board size is the most influencing factor that explains the changes in the return on equity and return on assets in the context of Nepalese commercial

banks.

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