Impact of Corporate Governance on Market Price of Share and Stock Return in Nepalese Commercial Banks

Dilip Poudel, Juliya Ghalan, Kamana Khadka, Kanchan Sah,
Mohin Shahi and Nishchal Sharma*

Abstract

This study examines the effect of corporate governance attributes on market price of share and stock return in Nepalese commercial banks. The dependent variables are market price of share and stock return. Similarly, the independent variables are company size, board size, board diversity, audit committee, non-performing loans, profitability and leverage. The study is based on secondary data of 15 commercial banks with 105 observations for the period from 2015/16 to 2021/22. The data were collected from Banking and Financial Statistics published by Nepal Rastra Bank, publications and websites of Nepal Rastra Bank (NRB) 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 on the market price of share and stock return of Nepalese commercial banks.

The study showed that audit committee size has a positive effect on stock return. It means that increase in audit committee size leads to increase in stock return. However, leverage ratio has a negative effect on stock return. It means that increase in leverage ratio leads to decrease in stock return. Similarly, profitability has a positive effect on market price of share and stock return. It means increase in bank profit leads to increase in market price of share and stock return. Similarly, board diversity has a positive effect on market price of share and stock return. It implies that increase in female board directors leads to increase in market price of share and stock return. However, nonperforming loans has a negative effect on market price of share. It implies that increase in nonperforming loans leads to decrease in market price of share. Similarly, board size has a positive effect on market price of share and stock return. It means increase in board size leads to increase in market price of share and stock return.

Keywords: market price of share, company size, board size, board diversity, audit committee, non-performing loan, profitability, leverage

1. Introduction

Corporate governance deals with the ways in which the rights of the corporation's external equity finance providers are protected and they

*Mr. Poudel, Ms. Ghalan, Ms. Khadka, Ms. Sah, Mr. Shahi and Mr. Sharma are Freelance Researchers, Kathmandu, Nepal. E-mail: kamanakhadka46@gmail.com

receive a reasonable return. This reduces the risk of exploitation of outsiders by insiders and thereby reduces the cost of capital for issuers. Corporate governance can help these countries achieve higher levels of economic growth rates, confidence in the national economy, and the ability to mobilize savings. Meanwhile, corporate governance can play a major role in raising investment rates, and protecting the rights of the minority shareholders or small investors. In addition, corporate governance enhances the growth of private companies by sustaining their competitive abilities, helping them secure their financial resources, fostering their profits, and improve their job creating capacities. Strong corporate governance mechanism affects the access, the amount of external financing, cost of capital and firm valuation. Creditors are reluctant to provide financing to weaker corporate governance settings or charge higher rates to get an adequate rate of return (Jackson and Roe, 2009). Claessens and Yurtoglu (2013) defined corporate governance as a set of mechanisms through which firms operate when management and ownership are separated. The recent financial crisis has showed the importance of corporate governance and how failures in maintaining well governed firms can adversely affect whole economies. These developments have made the monitoring of the use of capital more complex in many ways, enhancing the need for good corporate governance. According to Triole (2001), the main purpose of corporate governance is to ensure the society that large corporations are managed properly so investors and lenders can be sure that their funds are put in the right place.

Corporate governance factors can play a role in fluctuating stock prices on the capital market. Governance includes financial and non-financial disclosures to increase transparency for stakeholders, especially shareholders. Good corporate governance shows how management applies accountability to shareholders. This implies that the company system employed is designed to make shareholders truly aware of the company's financial performance and potential. Mohamed and Elewa (2016) showed that corporate governance has a significant impact on stock prices and trading volume. This makes corporate governance also about making timely and voluntary disclosures about events and factors that can affect the interests of shareholders. Corporate governance overcomes agency problems caused by the separation of ownership and control in modern companies. It can force managers to disclose important information to reduce information asymmetry between managers and shareholders (Siagian et al., 2013)

Aman and Nguyen (2008) considered it as the practice and arrangement

through which a firm's business is run with the final objective of increasing shareholder's wealth. Black et al. (2006) claimed that there is no strong evidence that better-governed firms are more profitable or pay higher dividends. It is, however, the investors who value the same earnings or the same current dividends more highly for better-governed firms due to less risk. Corporate governance practice provides a means to know the dream of justify risks and optimize performance at the same time in today's strong regulatory setting. It is evident that if corporate governance is material for a firm's performance and this relationship is fully integrated by the stock market, then stock price should rapidly correct to any relevant change in the firm's governance (Gompers et al., 2003). Corporate governance lays down an outline for creating long-term trust between company and its stakeholders (Samontaray, 2010). Aman and Nguyen (2008) claimed that poorly governed firms (i.e., those with low governance scores) have lower valuations, while better-governed firms have higher valuations.

Mohamed and Elewa (2016) investigated whether corporate governance is associated with stock prices and trade volume for 62 publicly traded firms on the Egyptian Stock Exchange during 2007-2014. The study found that the firms with strong corporate governance have a significant impact on stock prices while has no significant impact on trade volume. The findings indicate that quality of corporate governance can affect firms' stock price while trading volume is not affected by the strength of corporate governance. The results suggested that Egyptian firms should improve their corporate governance as it has a significant effect on firms' value. Malik (2012) examined the relationship between corporate governance score and stock prices of firms listed on the Karachi Stock Exchange KSE30 Index. The study showed that well-governed firms have higher stock prices and the opposite is true. This happens because better-managed firms are expected to perform better and consequently the stock prices are expected to increase. Bauer and Guenster (2003) examined the impact of corporate governance on stock returns, firm value and operating performance for firms incorporated in member states of the European Monetary Union (EMU). The results showed that investors perceive a higher value for well-governed firms. Chahine et al. (2012) assessed the effect of corporate governance on market reaction around of a share repurchase announcement. The study found that firms that are transparent and well-governed have a higher market reaction to announcements of stock repurchases. In addition, the study found evidence of a cumulative abnormal return of well-governed firms that is significantly higher than bad governed

firms. The study also suggested that this result for well-governed firms could be an indicator of undervaluation and for poor- governed firms could be an indicator of mitigating agency conflicts more than signaling.

Pernamasari et al. (2019) analyzed stock prices by using prediction of financial difficulties and good corporate governance in agricultural sector companies in Indonesia. The results of the study showed that good corporate governance and prediction of financial distress have a significant positive effect on stock prices on agricultural sector companies involved in the Exchange Indonesian effect. The results also proved that corporate governance rules consider how to regulate accountability to shareholders who support the stock price, while bankruptcy predictions can provide results for investors in choosing companies that need through stock prices. Similarly, Sajjad and Rashid (2015) examined the relationship between board diversity and firm's performance in the developing financial market using the panel data of 20 commercial banks listed on Karachi Stock Exchange (KSE), Pakistan for the years 2007 to 2012. The results showed that a higher proportion of female and young board of directors leads to lower firm value. On the other hand, higher representation of foreign directors improves the firm value as measured by Tobin's Q. Therefore, to take advantage of this finding, the board of directors should include trained and mature female, foreign and qualified young directors. The results related to control variables suggested that board size does not play any role in affecting the firm value, whereas the value of firm decreases with an increase in the firm size. Finally, market capitalization and price-to-book value ratio of the firm play a positive role in affecting the shareholder's value in the selected market.

In the context of Nepal, Joshi et al. (2023) examined the impact of corporate governance on dividend policy of Nepalese commercial banks. The study showed that board size has a positive impact on dividend per share. Similarly, female directors have a negative effect on dividend per share and dividend payout ratio. It means that increase in female directors in the board leads to decrease in dividend per share and dividend payout ratio. Similarly, independent director has a negative effect on dividend per share. It means that increase in the number of independent directors leads to decrease in dividend per share. Aryal *et al*. (2022) examined the impact of board size, female directors, CEO/Duality, firm size and audit committee, dividend payout ratio and dividend per share on Nepalese commercial banks. The study showed that female directors, audit committee and board size have a negative impact on dividend per share and CEO duality and firm size have a positive impact

on dividend per share. The study concluded that the female directors followed by firm size is the most influential that explains dividend policy in Nepalese commercial banks. Bhatt and Jain (2021) examined the relationship between corporate governance and dividend policy from the commercial banking sector in Nepal. The study explored that corporate governance in terms of board characteristics has no significant function in shaping the dividend payout of the banking sector.

The above discussion shows that empirical evidences vary greatly across the studies concerning on the effect of corporate governance on market price of share and stock return 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 main purpose of the study is to analyze the effect of corporate governance on market price of share and stock return of Nepalese commercial banks. Specifically, it examines the relationship of company size, board size, board diversity, audit committee, leverage, non-performing loan and profitability with market price of share and stock return in the context 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 the conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 15 Nepalese commercial banks for the study period from 2015/16 to 2021/22, leading to a total of 105 observations. The study has employed purposive sampling method. The main sources of data include Banking and Financial Statistics published by Nepal Rastra Bank, reports published by Ministry of Finance and the 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 commercial banks	Study Period	Observation
1	Agricultural Development Bank Limited	2015/16 - 2021/22	7
2	Citizens Bank International Limited	2015/16 - 2021/22	7
3	Everest Bank Limited	2015/16 - 2021/22	7
4	Global IME Bank Limited	2015/16 - 2021/22	7
5	Himalayan Bank Limited	2015/16 - 2021/22	7
6	Laxmi Bank Limited	2015/16 - 2021/22	7
7	Machhapuchchhre 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	Prime Commercial Bank Limited	2015/16 - 2021/22	7
13	Sanima Bank Limited	2015/16 - 2021/22	7
14	Siddhartha Bank Limited	2015/16 - 2021/22	7
15	Sunrise Bank Limited	2015/16 - 2021/22	7
Total number of observations			105

Thus, the study is based on 105 observations.

The model

The model used in the study assume that market price of share and stock return depends upon the corporate governance attributes of Nepalese commercial banks. The dependent variables selected for the study are market price of share and ea. Similarly, the selected independent variables are company size, board size, board diversity, audit committee, leverage, non-performing loan and profitability. Therefore, the model takes the following forms:

$$MPS = \beta_0 + \beta_1 CSIZE_{it} + \beta_2 BSIZE_{it} + \beta_3 BDIV_{it} + \beta_4 AUCOM_{it} + \beta_5 LEV_{it} + \beta_6 NPL_{it} + \beta_7 PROF_{it} + e_{it}$$

$$SR = \beta_0 + \beta_1 CSIZE_{it} + \beta_2 BSIZE_{it} + \beta_3 BDIV_{it} + \beta_4 AUCOM_{it} + \beta_5 LEV_{it} + \beta_6 NPL_{it} + \beta_7 PROF_{it} + e_{it}$$

Where,

MPS = Market price of share as measured by the closing market price of share, in Rs.

SR= Stock return as measured by the profit that is gained from stock investment in a definite time period, in percentage.

CSIZE= Company size as measured by the paid-up capital of the bank, Rs in billions.

BSIZE= Board size as measured by the ratio of absolute number of directors on the board of a company, in numbers.

BDIV= Board diversity as measured by the proportion of female directors to the total directors of the board.

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

LEV= Leverage as measured by the ratio of total liabilities to total equity, in percentage.

NPL= Nonperforming loan as measured by the ratio of gross non-performing loan to total loans, in percentage.

PROF= Profitability as measured by the ratio of net profit to total assets for the year, in percentage.

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

Company size

Company size is defined as the size of paid-up capital of the commercial bank. Alabassi et al. (2022) found that the firm size affects the market price of share and earnings per share positively. Novita et al. (2022) assessed the effect of profitability, company size and capital structure on stock prices in the consumer goods industry sector listed on the Indonesia stock exchange. The study showed that firm size has a significant effect on stock performance of a company. Pohan (2020) concluded that the firm size has a positive and significant effect on the market price of share and earnings per share of firms. The study noted that large-scale firms are better able to exploit investment opportunities and then make high profits, affecting stock performance of the firms positively. Based on it, the study develops following hypothesis:

H_1: There is a positive relationship of company size with market price of share and stock return.

Board size

Board size is defined as the absolute number of directors on the board of a company. Yermack, David (1996) indicated that optimal board size is more efficient than a smaller board size to obtain higher market valuation, return on

equity (ROE) and return on assets (ROA). Likewise, Eldenburg et al. (2004) showed that an increase in board size will have positive effect on market price of share. Anderson et al. (2004) argued that a large board size exhibits more control over management and processes of financial accounting with a high level of transparency; therefore, information asymmetry is decreased and stock market liquidity is improved. Large board associates with better corporate governance because it is less likely to be dominated by management and, thus, decreases asymmetric information, protecting shareholders' interests assuming the positive relationship between board size and stock price (Zahra and Pearce, 1989). Based on it, the study develops following hypothesis:

H_2: There is positive relationship of board size with market price of share and stock return.

Board diversity

Board diversity is defined as the proportion of women directors to the number of directors on the board of company. Ullah (2012) analyzed the relationship between corporate governance score and stock prices from KSE-30 index companies. The study found a negative relationship between gender diversity and stock price. Gupta and Sharma (2014) examined the impact of corporate governance practices on firm performance in Indian and South Korean companies. The study found a negative association between board diversity and return on equity. Stephen and Okoro (2014) found board diversity as a negative determinants of stock price movement in Nigeria. Based on it, the study develops following hypothesis:

H_3: There is negative relationship of board diversity with market price of share and stock return.

Audit committee

Audit committee is defined as the number of members in audit committee. Setiawan et al. (2020) examined the effect of several audit committee characteristics: independence of audit committee members, number of audit committee members, number of meetings, expertise in finance and gender on earnings management. The result showed that number of audit committee members have significant positive influence on earnings management. Similarly, there is a positive relationship between the number of audit committee members and EPS (Lin et al., 2006). Sun et al. (2014) found a significant positive relationship between the number of audit committee members and EPS in a sample of Chinese companies. Based on it, the study

develops following hypothesis:

H_4: There is a positive relationship of audit committee with market price of share and stock return.

Leverage

Leverage affects the market price of share and earnings per share positively (Alabassi et al., 2022). Leverage aids firms in providing the necessary financing and then employing it in investments optimally, and this contributes significantly to the survival and growth of firms. Iqbal et al. (2017) examined the impact of different leverage measures on the share price of Cement Sector in Pakistan Stock Exchange. The results showed that debt ratio and degree of financial leverage is positively associated with the share price. Hillman et al. (2012) found a positive relationship between debt ratio and return on equity. Based on it, the study develops following hypothesis:

H_5: There is a positive relationship of leverage with market price of share and earnings per share.

Non performing loan

Manz et al. (2019) examined the relationship between NPLs and stock price. The study found that an increase in NPLs leads to decrease in stock price. Similarly, Iskandar (2017) assessed the effect of non-performing loan on stock return at conventional banks. The result stated that non-performing loan has significant negative impact on stock return. Moreover, Shrestha (2011) ascertained the determinants of nonperforming loans (NPL) in the Nepalese commercial banking sector using a descriptive statistic, trend and one factor econometric model. The study found that nonperforming loans is negatively associated with stock price. Based on it, the study develops following hypothesis:

H_6: There is a negative relationship of non-performing loan with market price of share and stock return.

Profitability

Profitability is defined as the return on assets of the bank. Sharma (2011) found that there is a positive relationship between net profit and stock price in the Nepalese market. The study found that a 1% increase in net profit was associated with a 0.4% increase in stock price. Uddin (2009) found that there is a positive relationship between net profit and stock price in the banking sector in Bangladesh. Nirmala et al. (2011) found that there is a positive

relationship between net profit and stock price in the Indian market. Based on it, the study develops following hypothesis:

H_7: There is a positive relationship of profitability with market price of share and stock return.

3. Results and discussion

Descriptive statistics

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

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 15 Nepalese commercial banks for the study period of 2015/16 to 2021/22. The dependent variables are MPS (Market price of share as measured by the closing market price of share, in Rs) and SR (Stock return is the profit that is gained from stock investment in a definite time period, in percentage). The independent variables are BSIZE (Board size as measured by the ratio of absolute number of directors on the board of a company, in numbers), CSIZE (Company size as measured by the paid-up capital of the bank, Rs in billions), BDIV (Board diversity as measured by the proportion of female directors to the total directors of the board), AUCOM (Audit committee size as measured by the number of audit members, in numbers), PROF Profitability as measured by the ratio of net profit to total assets ratio for the year, in percentage), NPL (Nonperforming loan as measured by the ratio of gross non-performing loan to total loans, in percentage) and LEV (Leverage as measured by the ratio of total liabilities to total equity, in percentage).

Variables	Minimum	Maximum	Mean	Std. Deviation
MPS	188.0	3385.0	511.96	395.44
SR	10.15	65.97	24.72	8.89
CSIZE	2742.00	23795.00	9671.09	4082.36
BSIZE	5.00	11.00	6.98	1.20
BDIV	0.00	1.00	0.51	0.50
AUCOM	3.00	5.00	3.26	0.56
LEV	0.55	0.95	0.88	0.04
NPL	0.01	4.60	1.15	0.90
PROF	0.70	2.77	1.55	0.38

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 descriptive statistics of dependent and independent variables of 15 Nepalese commercial banks for the study period from 2015/16 to 2021/22. The dependent variables are MPS (Market price of share as measured by the closing market price of share, in Rs) and SR (Stock return is the profit that is gained from stock investment in a definite time period, in percentage). The independent variables are BSIZE (Board size as measured by the ratio of absolute number of directors on the board of a company, in numbers), CSIZE (Company size as measured by the paid-up capital of the bank, Rs in billions), BDIV (Board diversity as measured by the proportion of female directors to the total directors of the board), AUCOM (Audit committee size as measured by the number of audit members, in numbers), PROF Profitability as measured by the ratio of net profit to total assets ratio for the year, in percentage), NPL (Nonperforming loan as measured by the ratio of gross non-performing loan to total loans, in percentage) and LEV (Leverage as measured by the ratio of total liabilities to total equity, in percentage).

Variables	MPS	SR	CSIZE	BSIZE	BDIV	AUCOM	LEV	NPL	PROF
MPS	1								
SR	0.729**	1							
CSIZE	-0.401**	-0.274**	1						
BSIZE	0.285**	0.342**	-0.003	1					
BDIV	-0.289**	-0.246*	0.302**	-0.159	1				
AUCOM	-0.007	0.026	-0.190	.296**	-0.065	1			
LEV	0.083	-0.271**	-0.204*	-0.130	-0.189	-0.274**	1		
NPL	-0.150	0.079	0.399**	0.337**	0.214*	0.177	-0.584**	1	
PROF	0.240*	0.614**	-0.202*	0.278**	-0.255**	0.113	-0.339**	0.163	1

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

Table 3 shows that company size is negatively correlated to market price of share. It shows that increase in company size leads to decrease in market price of share. Similarly, board diversity is positively correlated to market price of share. It implies that increase in female board directors leads to increase in market price of share. However, there is a negative relationship between nonperforming loans and market price of share. It implies that increase in nonperforming loans leads to decrease in market price of share. Similarly, board size is positively correlated to market price of share. It means increase in board size leads to increase in market price of share. However, there is a negative relationship between audit committee size and market price of share. It means that increase in audit committee size leads to decrease in market price of share. However, there is a positive relationship between leverage ratio and market price of share. It means that increase in leverage ratio leads to increase in market price of share. Similarly, profitability is

positively correlated to market price of share. It means increase in bank profit leads to increase in market price of share.

On the other hand, company size is negatively correlated to stock return. It shows that increase in company size leads to decrease in stock return. Similarly, board diversity is positively correlated to stock return. It implies that increase in female board directors leads to increase in stock return. However, there is a positive relationship between nonperforming loans and stock return. It implies that increase in nonperforming loans leads to increase in stock return. Similarly, board size is positively correlated to stock return. It means increase in board size leads to increase in stock return. However, there is a positive relationship between audit committee size and stock return. It means that increase in audit committee size leads to increase in stock return. However, there is a negative relationship between leverage ratio and stock return. It means that increase in leverage ratio leads to decrease in stock return. Similarly, profitability is positively correlated to stock return. It means increase in bank profit leads to increase in stock return.

Regression analysis

Having indicated the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 4 and Table 5. More specifically, Table 4 shows the regression results of non-performing loan, company size, board size, board diversity, audit committee, profitability and leverage on market price of share of Nepalese commercial banks.

Table 4

Estimated regression results of non-performing loan, company size, board size, board diversity, audit committee, profitability and leverage on market price of share

The results are based on panel data of 15 commercial banks with 105 observations for the period 2015/16-2021/22 by using linear regression model. The model is $MPS = \beta_0 + \beta_1 CSIZE_{it} + \beta_2 BSIZE_{it} + \beta_3 BDIV_{it} + \beta_4 AUCOM_{it} + \beta_5 LEV_{it} + \beta_6 NPL_{it} + \beta_7 PROF_{it} + e_{it}$ where the dependent variable is MPS (Market price of share as measured by the closing market price of share, in Rs). The independent variables are BSIZE (Board size as measured by the ratio of absolute number of directors on the board of a company, in numbers), CSIZE (Company size as measured by the paid-up capital of the bank, Rs in billions), BDIV (Board diversity as measured by the proportion of female directors to the total directors of the board), AUCOM (Audit committee size as measured by the number of audit members, in numbers), PROF Profitability as measured by the ratio of net profit to total assets ratio for the year, in percentage), NPL (Nonperforming loan as measured by the ratio of gross non-performing loan to total loans, in percentage) and LEV (Leverage as measured by the ratio of total

liabilities to total equity, in percentage).

Model	Intercept	Regression coefficients of							Adj. R_bar²	SEE	F-value
		NPL	CSIZE	BSIZE	BDIV	AUCOM	PROF	LEV			
1	586.979 (9.452)	-65.389 (1.536)							0.013	392.88	2.359
2	887.657 (9.678)**		-3.88 (4.443)**						0.153	364	19.74
3	-142.54 (0.647)			93.76 (3.104)**					0.072	380.91	9.085
4	629.19 (11.814)**				-227.95 (3.069)**				0.075	380.34	9.421
5	527.74 (2.276)*					-4.845 (0.069)			0.01	397.35	0.005
6	130.61 (0.835)						246.681 (2.51)*		0.049	385.73	6.30
7	-200.97 (0.237)							807.78 (0.841)	0.003	395.99	0.707
8	886.01 (9.526**)	5.359 (0.124)	-0.039 (0.406)						0.145	365.76	9.783
9	-218.28 (1.017)	-121.07 (2.86)**		124.50 (3.897)**					0.132	368.33	8.936
10	686.46 (2.994)**	-39.387 (0.91)			-213.18 (2.773)**	-6.042 (0.088)			0.065	382.38	3.408
11	-2110.286 (2.256)**	-0.139 (1.045)		80.22 (2.538)*			244.95 (2.36)*	1907.52 (1.99)*	0.117	371.54	5.605
12	899.71 (3.156)**		-0.033 (3.62)**		-122.59 (1.641)*	-70.01 (1.088)	145.94 (1.53)		0.187	356.66	6.962
13	-687.76 (0.724)		-0.035 (3.873)**	85.68 (2.89)**			127.95 (1.26)	837.27 (0.891)	0.225	348.19	8.535
14	1028.39 (0.87)	-46.98 (0.89)	-0.035 (3.481)**	108.93 (3.321)**	-88.63 (1.18)	-131.56 (1.92)*	66.99 (0.638)	586.48 (0.509)	0.248	343.03	5.887

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 level respectively.
iii.   Market price of share is the dependent variable.

Table 4 shows that the beta coefficients for company size are negative with market price of share. It indicates that company size has a negative impact on market price of share. This finding is similar to the findings of Pohan (2020). Similarly, the beta coefficients for audit committee are negative with market price of share. It indicates that audit committee has a negative impact on market price of share. This finding is consistent with the findings of Setiawan et al. (2020). Likewise, the beta coefficients for board diversity are negative with market price of share. It indicates that the board diversity has a negative impact on market price of share. This finding is similar to the findings of Gupta and Sharma (2014). Similarly, the beta coefficients for board size are positive with market price of share. It indicates that the board size has a positive impact on market price of share. This finding is consistent with the findings of Eldenburg et al. (2004). However, the beta coefficients for leverage ratio are positive with market price of share. It indicates that leverage ratio has a positive impact on market price of share. This finding is similar to the findings of Hillman et al. (2012).

Table 5 shows the regression results of non-performing loan, company size, board size, board diversity, audit committee, profitability and leverage on stock return of Nepalese commercial banks.

Table 5

Estimated regression results of non-performing loan, company size, board size, board diversity, audit committee, profitability and leverage on stock return

The results are based on panel data of 15 commercial banks with 105 observations for the period 2015/16-2021/22 by using linear regression model. The model is $SR = \beta_0 + \beta_1 CSIZE_{it} + \beta_2 BSIZE_{it} + \beta_3 BDIV_{it} + \beta_4 AUCOM_{it} + \beta_5 LEV_{it} + \beta_6 NPL_{it} + \beta_7 PROF_{it} + e_{it}$ where the dependent variable is SR (Stock return is the profit that is gained from stock investment in a definite time period, in percentage). The independent variables are BSIZE (Board size as measured by the ratio of absolute number of directors on the board of a company, in numbers), CSIZE (Company size as measured by the paid-up capital of the bank, Rs in billions), BDIV (Board diversity as measured by the proportion of female directors to the total directors of the board), AUCOM (Audit committee size as measured by the number of audit members, in numbers), PROF Profitability as measured by the ratio of net profit to total assets ratio for the year, in percentage), NPL (Nonperforming loan as measured by the ratio of gross non-performing loan to total loans, in percentage) and LEV (Leverage as measured by the ratio of total liabilities to total equity, in percentage).

Model	Intercept	Regression coefficients of							Adj. R_bar²	SEE	F-value
		NPL	CSIZE	BSIZE	BDIV	AUCOM	PROF	LEV			
1	23.82 (16.92)**	0.786 (0.815)							0.003	8.910	0.649
2	30.495 (14.085)**		-0.001 (2.895)**						0.066	8.594	8.384
3	7.048 (1.451)			2.531 (3.69)**					0.108	8.392	13.632
4	26.96 (22.23)**				-4.362 (2.58)*				0.052	8.665	6.664
5	23.379 (4.486)**					0.411 (0.26)			0.009	8.932	0.068
6	2.791 (0.975)						14.18 (7.893)**		0.371	7.050	62.31
7	77.238 (4.19)**							-59.51 (2.852)**	0.064	8.624	8.131
8	29.851 (13.92)**	2.204 (2.21)*	-0.001 (3.59)**						0.101	8.432	6.729
9	14.319 (2.72)**	0.99 (0.97)	-0.001 (3.189)**	2.273 (3.204)**					0.175	8.087	8.362
10	6.87 (1.372)				-1.73 (1.214)	-0.762 (0.607)	13.73 (7.34)**		0.370	7.062	21.323
11	100.04 (4.42)**	0.71 (0.643)			-5.32 (3.23)**			-81.32 (3.29)**	0.144	8.243	6.821
12	16.342 (3.028)**	1.28 (1.234)	-0.001 (2.816)**	2.029 (2.806)**	-2.579 (1.52)				0.186	8.0242	6.932
13	37.186 (1.796)*				-2.46 (1.643)*	-1.305 (1.005)	12.514 (6.179)**	-29.79 (1.51)	0.380	7.022	16.716
14	62.935 (2.715)**	0.98 (0.917)	0.00 (2.517)*	1.995 (3.171)**	-1.24 (0.86)	-3.252 (2.47)*	9.858 (4.89)**	-57.16 (2.59)*	0.453	6.584	13.283

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 level respectively.

iii.   Stock return is the dependent variable.

Table 5 shows that the beta coefficients for company size are negative with market price of share. It indicates that company size has a negative impact on market price of share. This finding is similar to the findings of Novita et al. (2022). Similarly, the beta coefficients for audit committee are negative with market price of share. It indicates that audit committee has a negative impact on market price of share. This finding is consistent with the findings of Sun et al. (2014). Likewise, the beta coefficients for board diversity are negative with market price of share. It indicates that the board diversity has a negative impact on market price of share. This finding is similar to the findings of Ullah (2012). Similarly, the beta coefficients for board size are positive with market price of share. It indicates that the board size has a positive impact on market price of share. This finding is consistent with the findings of Anderson et al. (2004). However, the beta coefficients for leverage ratio are positive with market price of share. It indicates that leverage ratio has a positive impact on market price of share. This finding is similar to the findings of Iqbal et al. (2017).

4. Summary and conclusion

Corporate governance refers to the controls, procedures, and relationships used to manage and direct corporations. The governance structure and principles outline how the rights and obligations of the corporation's various stakeholders including the board of directors, managers, shareholders, creditors, auditors, regulators, and other interested parties are distributed. They also contain the policies and procedures for making business-related decisions. The methods used by organizations to determine and accomplish their goals are referred to as corporate governance. Corporate governance appears to be the connection between board diversity and the production of shareholder value.

The study attempts to examine the effect of corporate governance attributes on market price of share and return on stock of Nepalese commercial banks. This study is based on secondary data of 15 commercial banks in Nepal for the study period from 2015/16 to 2021/22, leading to a total of 105 observations.

The study showed that board size, audit committee, profitability and non-performing loan have positive effect on stock return of Nepalese commercial banks. Similarly, company size, board diversity, audit committee, profitability and leverage have negative effect on stock return of Nepalese commercial banks. The study also showed that there is positive and significant impact

of board size, profitability and leverage on market price of share. Similarly, company size, board diversity, non-performing loan and audit committee have negative effect on market price of share.

The study found that good corporate governance can help to reduce risk by ensuring that management is accountable and that the company's financial information is transparent. This can make investors more confident in the company's future prospects, which can lead to higher stock prices. The study also concluded that company size, board diversity and board size are the most influencing factor that explains the changes in market price of share of Nepalese commercial banks.

References

Alabassi, Z. M., H. Naser, and E. H. Al-Yahya, 2022. The effect of firm size on earning per share through financial leverage- An analytical study of a sample of industrial firms listed on the Iraqi stock exchange. *International Journal of Economic Studies* 5(1), 200-224.

Aman, H., and P. Nguyen, 2008. Do stock prices reflect the corporate governance quality of Japanese firms? *Journal of the Japanese and International Economies* 22(4), 647-662.

Anderson, R. C., A. M. Sattar, and D. M. Reeb, 2004. Board characteristics, accounting report, integrity and the cost of debt. *Journal of Accounting and Economics* 37(3), 315-342.

Aryal, S., S. Shrestha, S. Thapa, S. Rai, and S. Sah, 2022. The impact of corporate governance on dividend policy of Nepalese commercial banks. *Nepalese Journal of Finance* 9(1), 42-53.

Bauer, R., and N. Guenster, 2003. Good corporate governance pays off. Well-governed companies perform better on the stock market. *International Association for Business and Society* 5(1), 205-210.

Bhatt, S., and S. Jain, 2021. Corporate governance and dividend policy: Evidence from commercial banking sector in Nepal. *International Journal of Modern Agriculture* 10(2), 4319-4337.

Black, B. S., H. Jang, and W. Kim, 2006. Does corporate governance predict firms' market values? Evidence from Korea. *Journal of Law, Economics, and Organization* 22(2), 366-413.

Chahine, S., M. J. Zeidan, and H. Dairy, 2012. Corporate governance and the market reaction to stock repurchase announcement. *Journal of Management and Governance* 16(4), 707-726.

Claessens, S., and B. B. Yurtoglu, 2013. Corporate governance in emerging markets: A survey. *Emerging Markets Review* 15(1), 1-33.

Eldenburg, L., B. E. Hermalin, M. S. Weisbach, and M. Wosinska, 2004. Governance, performance objectives and organizational form: Evidence from hospitals. *Journal of Corporate Finance* 10(4), 527-548.

Gompers, P., J. Ishii, and A. Metrick, 2003. Corporate governance and equity prices. *The Quarterly Journal of Economics* 118(1), 107-156.

Gupta, P., and A. M. Sharma, 2014. A study of the impact of corporate governance practices on firm performance in Indian and South Korean companies. *Procedia-Social and Behavioral Sciences* 133(1), 4-11.

Hillman, A. J., V. Shropshire, and A. A. Cannella, 2012. Boards of directors and firm performance: Integrating agency and resource dependence perspectives. *Academy of Management Review* 37(3), 383-409.

Iqbal, A., H. Raza, M. F. Aslam, and M. Mubeen, 2016. Impact of leverages on share price: Evidence from cement sector of Pakistan. *Industrial Engineering Letters* 6(6), 44-48.

Iskandar, Y., 2017. The effect of non-performing loans, operating expense to operating income, and loan to deposit ratio on stock return at conventional banks. *Journal of Entrepreneur and Entrepreneurship* 6(1), 25–30.

Jackson, H. E., and M. J. Roe, 2009. Public and private enforcement of securities laws: Resource-based evidence. *Journal of Financial Economics* 93(2), 207-238.

Joshi, N., P. Singh, S. Budhathoki, S. Bajracharya and S. Bhatt, 2023. Impact of corporate governance on dividend policy of Nepalese commercial banks. *Nepalese Journal of Economics* 7(1), 131-144.

Lin, C. Y., S. Li., and J. Yang, 2006. The effect of audit committee characteristics on earnings restatements. *Journal of Accounting and Public Policy* 25(2), 137-164.

Malik, S. U., 2012. Relationship between corporate governance score and stock prices: Evidence from KSE-30 index companies. *International Journal of Business and Social Science* 3(4), 239-249.

Manz, T., C. El Euch, and M. Theobald, 2019. The impact of non-performing loan sales on the stock market: The role of corporate governance in an emerging market. *Journal of Banking and Finance* 109(1), 106-424.

Mohamed, W. S., and M. M. Elewa, 2016. The impact of corporate governance on stock price and trade volume. *International Journal of Accounting and Financial Reporting* 6(2), 27-44.

Nirmala, S., S. Sanju, and V. Ramachandran, 2011. Determinants of share prices in India: An empirical analysis. *Journal of Business Research* 64(12), 1627-1632.

Novita, R. D., A. Djazuli, and C. Choiriyah, 2022. The effect of profitability, company size and capital structure on stock prices in the consumer goods industry sector listed on the Indonesia stock exchange. *International Journal of Finance Research* 3(2), 101-112.

Pernamasari, R., S. Purwaningsih, J. Tanjung, and D. P. Rahayu, 2019. Good corporate governance and prediction of financial distress to stock prices: Atman Z score approach. *International Journal of Economics and Management Studies* 6(11), 56-62.

Pohan, S. H., 2020. Effect of firm size and debt to asset ratio on earning per share with profitability as a moderating variable in property and real estate firms. *Accounting and Business Journal* 2(1), 76-89.

Sajjad, S., and K. Rashid, 2015. The relationship between board diversity and firm performance: Evidence from the banking sector in Pakistan. *IUP Journal of Corporate Governance* 14(3), 25-32.

Samontaray, D. P., 2010. Impact of corporate governance on the stock prices of the nifty 50 broad index listed companies. *International Research Journal of Finance and Economics* 41(1), 7-18.

Setiawan, D., L. K. Phua., H. K. Chee, and I. Trinugroho, 2020. The effect of audit committee characteristics on earnings management: the case of Indonesia. *Afro-Asian Journal of Finance and Accounting* 10(4), 447-463.

Sharma, S., 2011. Factors affecting stock price of commercial banks in Nepal. *Journal of Nepalese Business Studies* 3(1), 1-18.

Shrestha, N. R., 2011. Non-performing loans and stock prices: A case of Nepali commercial banks. *PYC Nepal Journal of Management* 4(1), 92-117.

Siagian, F., S. V. Siregar, and Y. Rahadian, 2013. Corporate governance, reporting quality, and firm value: Evidence from Indonesia. *Journal of Accounting in Emerging Economies* 3(1), 4–20.

Stephen, E. A., and E. G. Okoro, 2014. Determinants of stock price movement in Nigeria: Evidence from the Nigerian stock exchange. *Journal of Economics and Sustainable Development* 5(3), 1-7.

Sun, J., J. Peng., and J. Zhang, 2014. Audit committee characteristics and earnings management: Evidence from China. *Journal of Business Research* 67(12), 2625-2631.

Triole, J., 2001. Corporate Governance. *Economertica* 69(1), 1-35.

Uddin, M. A., 2009. The relationship between net profit and stock price: Evidence from the banking sector of Bangladesh. *Journal of Business Studies* 32(1), 59-74.

Ullah, S., 2012. Relationship between corporate governance score and stock prices: Evidence from KSE-30 index companies. *International Journal of Business and Social Science* 3(4), 239-251.

Yermack, D., 1996. Higher market valuation companies with a small board of directors. *Journal of Financial Economics* 40(2), 185–212.

Zahra, S. A., and J. A. Pearce, 1989. Boards of directors and corporate financial performance: A review and integrative model. *Journal of Management* 15(2), 291–334.