Corporate Governance and Organizational Growth: A Case of Nepalese Commercial Banks

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Abstract

This study examines the impact of corporate governance on the organizational growth in the context of Nepalese commercial banks. The selected dependent variables are return on equity and return on assets. Similarly, the selected independent variables are board meeting, board diversity, audit committee size, board interdependence, firm age and board size. 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 organizational growth in the context of Nepalese commercial banks.

The study showed that board independence has a positive impact on return on equity. It means that higher the number of independent directors on the board, higher would be the return on equity. Similarly, board diversity has a positive effect on return on assets and return on equity. It means that increase in proportion female directors on board leads to increase in return on assets and return on equity. The results of the study also showed that audit committee has a positive impact on return on assets and return on equity. It implies that larger the size of audit committee, higher would be the return on assets and return on equity. However, firm age has a positive impact on return on assets. This shows that increase in firm age leads to increase in return on assets. Similarly, board size has a positive impact on return on assets and return on equity. It implies that larger the board size, higher would be the return on assets and return on equity.

Keywords: return on equity, return on assets, board meeting, board diversity, audit committee size, board interdependence, firm age, board size

1. Introduction

Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of the rights and responsibility among different participants in the corporations such as the board, managers, shareholders, and other stakeholders,

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and spells out the rules and procedures for decisions on corporate affairs. It is the link between the members of the company who work for the growth and sustainability of the company. It is also the way in which stakeholders of the organization have an influence over the management (Shah et al., 2011). Corporate Governance (CG) also has tendency to affect the decision which are very long term in the organization. The fundamental objective of corporate governance is to enhance transparency and transparency enhances accountability along with growth. Imam and Malik (2007) stated that the need for corporate governance arises from the potential conflicts of interest among the participants (stakeholders) in the corporate structure. Organizational growth is the way a company expand and enlarge itself either in equity or in assets. Some organizations have taken different factors for growth according to the nature of the organization. Profitability is one of the major indicators which shows the organizational growth. The most popular indicators of the organizational growth are return on assets (ROA) and return on equity (ROE).

Fallatah (2012) investigated the relationship between corporate governance characteristics and firm performance and value of Saudi-listed firms. The study found that corporate governance and firm performance (measured as return on assets) are unrelated, but corporate governance and firm value (measured as Tobin's Q and market value of equity) are positively related. Aleemi and Uddin (2020) examined the relationship between corporate governance and firm performance for listed firms on Pakistan Stock Exchange. The study concluded that there is a positive relationship between firm performance and corporate governance. Further, Denis and Sarin (1999) argued that there is a negative relation between board independence and inside ownership. Board independence as a vital corporate governance attribute promotes profitable growth through positively influencing the performance of banks (Kumari and Pattanayak, 2017). Similarly, Torchia *et al.* (2011) indicated that the ability of women to influence board decision seems to increase with their numbers particularly for boards with more than one woman or three women. Zraiq and Fadzil (2018) showed a positive direction but insignificant relationship between audit committee and ROE. Moreover, Al- Baidhani (2014) indicated that the audit committee plays a major role in corporate governance regarding the organization direction, control and accountability. Further, Anderson *et al.* (2004) showed a positive relationship between audit committee and firm performance.

Mersland and Storm (2009) found that having a female CEO and an internal auditor reporting to the board is associated with better financial

performance. However, international directors on the board increase costs and reduce operational self-sufficiency. According to Imam and Malik (2007), the need for corporate governance arises from the potential conflicts of interest among participants (stakeholders) in the corporate structure. This conflict of interest often arises because different participants have different goals and preference. Likewise, Yermack (1996) demonstrated that small boards are associated with higher performance. The study concluded that any benefits that may be associated with large boards will be overwhelmed by poor decision-making processes. In contrast, resource dependence theory suggests that large boards bring higher organizational performance (Hillman *et al*., 2001). In addition, Al-Ahdal *et al*. (2020) analysed the impact of corporate governance mechanisms on the financial performance of Indian and GCC listed firms. The study revealed that board accountability and audit committee have an insignificant impact on firms' performance. Similarly, Luoma and Goodstein (1999) examined the relation between organizational performance and independent directors in the US firms. The study showed that regulated and larger organizations have more stakeholders on their boards than unregulated and smaller organizations. Labie and Mersland (2011) suggested that good governance is not only based on the ability to ensure the sustainability of the organization, but also on strategic vision and transparency. The study further suggested that this is possible when organizations adopt a stakeholder approach that includes the key actors in an organization. Furthermore, Fratini and Tettamanzi (2015) analyzed relationship between corporate governance and performance in Italian firms using regression model. The study observed that board size has a positive and statistically significant relationship with firm performance which implies larger board size firms have higher performance.

Ullah (2016) determined the relationship between corporate governance attributes i.e., accountability and transparency and firm performance. The study revealed a very strong significant relationship between accountability, transparency and firm performance. Those companies which are accountable and transparent in their business affairs, they perform better than those that do not have any system of accountability and transparency. Khatib and Nour (2021) suggested that a larger board of directors can bring diverse experience, better oversight mechanisms, and more effective communication during crisis periods. Similarly, Ejike *et al*. (2022) investigated the relationship between corporate governance and firm value of Nigerian banks using the quantitative research design. The findings indicated that corporate governance proxies have significant effect on the return on investment, dividend per share and net assets

per share of the selected banks in Nigeria. The study further recommended that all the stakeholders involved in monitoring the institutionalization of an effective system of corporate governance in Nigeria banks should do more to ensure that bank directors adhere to good and transparent corporate governance to reverse the continuous trend of bank failures in Nigeria in order to enhance the value of the firm. Greater transparency and disclosure keep corporate stakeholders better informed about the way a bank is managed and governed and prevent banks from taking excessive risks. In addition, Wang *et al.* (2015) stated that the more information disclosed to the public, the stronger the market discipline. Furthermore, increased transparency facilitates the allocation of resources by improving market discipline via reducing informational asymmetry (Tadesse, 2006).

In Nepalese context, Nepali (2022) examined the linkages of corporate governance with the performance and risk-taking of Nepalese banks. The study revealed that a greater number of board meetings and audit committee meetings leads to better performance and lower risk. Likewise, Lamichhane (2018) concluded that corporate governance, market to book value ratio, firm age, size of assets and debt ratio have a strong positive impact on financial performance of Nepalese firms. Maharjan *et al.* (2015) examined the impact of corporate governance on bank profitability in Nepal. The study showed that good corporate governance determines the profitability of banks in Nepal. The result also indicated that larger the board size, lower would be the return on assets. In addition, Adhikari (2022) found that banks with a risk management committee had lower non-performing loans and higher return on assets. The study also found that the effectiveness of the risk management committee was positively related to the number of meetings held and the experience of the committee members. Good corporate governance and risk management can help to increase shareholder value by reducing the risk of financial losses and by improving the company's overall performance.

The above discussion shows that empirical evidences vary greatly across the studies concerning on the effect of corporate governance on the growth 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 organizational growth in the context of Nepalese commercial banks. Specifically, it examines the relationship of board size, board diversity,

board meeting, board independence, audit committee and firm age with return on assets and return on equity 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 the banks	Study period	Observations
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 SBI Bank Limited	2015/16- 2021/22	7
9	NIC Asia Bank Limited	2015/16- 2021/22	7
10	NMB Bank Limited	2015/16- 2021/22	7
11	Prime Commercial Bank	2015/16- 2021/22	7
12	Prabhu 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 organizational growth depends upon the corporate governance attributes of Nepalese commercial banks. The dependent variables selected for the study are return on assets and return on equity. Similarly, the selected independent variables are board size, board diversity, board meeting, board independence, audit committee and firm age. Therefore, the model takes the following forms:

$$ROA = \alpha + \beta_1 BS + \beta_2 BD + \beta_3 BM + \beta_4 BI + \beta_5 AC + \beta_6 FA + e$$

$$ROE = \alpha + \beta_1 BS + \beta_2 BD + \beta_3 BM + \beta_4 BI + \beta_5 AC + \beta_6 FA + e$$

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 stockholders' equity, in percentage.

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

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

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

BI = Board independence as measured by the number of independent directors in the board of directors, in numbers.

BM=Board meeting as measured by the number of board level meetings held in a year, in numbers.

FA=Firm age, in years.

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

Board size

Board size is defined as the absolute number of directors on the board of a company. A larger board allows for the inclusion of directors with specific expertise relevant to the organization's growth objectives (Lim et al., 2007). With a greater number of directors, there is typically a higher level of accountability, as decisions are subject to more scrutiny and checks-and-balances. Effective governance structures can ensure that the organization's resources are allocated appropriately, risks are managed effectively, and growth opportunities are evaluated thoroughly. This can help minimize

potential pitfalls and increase the likelihood of successful growth initiatives (Dwivedi and Jain, 2005). A larger board often means a broader network of contacts and connections for the organization. Board members can leverage their individual networks to facilitate partnerships, collaborations, and access to resources that can fuel organizational growth. The board's collective connections and influence can help open doors to new markets, potential investors, key industry players, and strategic alliances that can contribute to the organization's expansion (Gales and Kesner, 1994). According to Kyereboah-Coleman and Biekpe (2006), there is a positive association between board size and organizational growth suggests that as the size of a company's board of directors increases, the organization is more likely to experience growth and expansion. Based on it, the study develops following hypothesis:

H_1: There is a positive association between board size and organizational growth.

Firm age

According to Boone et al. (2007), firm age is a relevant indicator of future growth opportunities. Older organizations often have the advantage of accumulated experience and industry knowledge. Over time, they have had the opportunity to learn from successes and failures, refine their operations, and establish strong relationships with customers, suppliers, and other stakeholders. This experience can contribute to strategic decision-making and better positioning the organization for growth. Kooij et al. (2010) confirmed that matured firms have more liquid trading, better disclosure, well diversified, managing portfolio in reducing risk and higher growth opportunity. Older organizations may have had more time to accumulate resources, including financial capital, intellectual property, technological infrastructure, and human capital. These resources can be leveraged to fuel growth initiatives, invest in research and development, expand into new markets, or acquire other businesses. Evans (1987) concluded that older and larger firms have greater skill and experience. Organizations with a longer history often have a well-established reputation and credibility within their industry or market. A positive brand image and a history of delivering quality products or services can enhance customer trust and loyalty, leading to sustained growth and expansion opportunities. Based on it, the study develops following hypothesis:

H_2: There is a positive association between age and organizational growth.

Board independence

Board independence is defined as the number of non-executive members

in board of directors. Independent directors bring an external and unbiased perspective to the boardroom. They are not influenced by personal or business relationships with management or other stakeholders, which allows them to make objective decisions in the best interest of the organization. Objective decision-making can contribute to the identification and pursuit of growth opportunities without undue bias or conflicts (Lim et al., 2007). Independent directors play a crucial role in corporate governance by providing oversight and accountability. Their independence allows them to ask challenging questions, review management decisions critically, and ensure proper risk management and compliance (Chen et al., 2009). Effective governance and robust oversight can create a solid foundation for organizational growth by minimizing risks, ensuring ethical behavior, and protecting the organization's reputation. Access to diverse expertise and networks can facilitate strategic decision-making, identify growth opportunities, and support the organization's expansion efforts (Cotter and Silvester, 2003). Based on it, the study develops following hypothesis:

H_3: There is a positive association between board independence and organizational growth.

Audit committee

Audit committee has an important role of ensuring and monitoring the accounting process so that management can provide information that is relevant and credible to all stakeholders. The reliable data and report provided by the committee ensures the organization is financially safe and have necessary information if it wants to take the necessary expansion work for the purpose of firm's growth (Owens-Jackson et al., 2009). Audit committees are responsible for overseeing financial reporting processes, internal controls, and risk management within an organization. A larger audit committee may have more resources and expertise to effectively fulfill this role. Effective oversight and robust risk management practices can contribute to organizational stability, which is an essential foundation for sustainable growth. The presence of additional members can facilitate more comprehensive discussions, deeper analysis, and diverse perspectives on financial and accounting matters. This can lead to improved financial reporting quality, reduced fraud risks, and increased stakeholder confidence, which can create a positive environment for growth (Saha et al., 2018). Larger audit committee can potentially offer a broader range of expertise and knowledge, as members may possess different backgrounds, skills, and industry experiences. This diversity can be valuable when addressing complex financial issues, evaluating strategic decisions, and

providing guidance on risk management (Bicer and Feneir, 2019). Access to a variety of perspectives and expertise may contribute to more informed decision-making, potentially leading to better growth strategies (Aljaaidi et al., 2021). Based on it, the study develops following hypothesis:

H_4: There is a positive association between audit committee size and organizational growth.

Board diversity

Board diversity indicates the number of female directors in the board of an organization. Board diversity can lead to more effective problem-solving. Diverse boards can approach challenges and opportunities from different angles, resulting in a broader range of solutions. In an increasingly globalized and diverse marketplace, having board members who reflect the demographics and preferences of target markets can provide a competitive advantage (Ntim, 2015). Organizations with diverse boards are often seen as more inclusive, progressive, and socially responsible. Such organizations can attract and retain top talent, build stronger relationships with customers, and gain the trust and support of various stakeholders. Female directors bring unique perspectives and experiences to the boardroom, enhancing the diversity of thought and decision-making processes (Hunt eta l., 2015). Organizations with gender-diverse boards often have a stronger reputation for inclusion and equality. This reputation can be attractive to talented individuals, including both female and male professionals, who seek opportunities in organizations that value diversity. By attracting a diverse pool of talent, organizations can tap into a wider range of skills, perspectives, and expertise, fostering an environment that promotes innovation and drives organizational growth (Anifowose et al., 2017). Based on it, the study develops following hypothesis:

H_5: There is a positive association between board diversity and organizational growth.

Board meeting

Board meeting is defined as the total number of board meeting held by the company. Board meetings serve as a platform for strategic decision-making, oversight, and collaboration among board members, and when managed effectively, they can contribute to an organization's growth in several ways (Bennett and Robson, 2004). Salehi et al. (2017) found a positive relationship between the number of board meetings and company performance. Effective board meetings can ensure alignment among board members and provide clarity on the strategic priorities necessary for growth. Heng et al.

(2012) found a positive impact of the number of boards' meeting on firms' performance in India. Board meetings play a crucial role in the governance and oversight of an organization. Boards are responsible for monitoring the organization's performance, risk management, and compliance with legal and ethical standards. Effective governance practices can help minimize risks, ensure accountability, and provide a solid foundation for sustainable growth. The oversight provided during board meetings can contribute to a well-managed and controlled growth process. Ben-Amar and McIlkenny (2015) revealed that frequency of board meetings is considered to be an important way of improving the effectiveness of the board. By leveraging the expertise and networks of board members during meetings, organizations can tap into valuable resources and opportunities that drive growth. Based on it, the study develops following hypothesis:

H_6: There is a positive association between board meeting and organizational growth.

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 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 stockholders' equity, in percentage). The independent variables are BS (Board size as measured by the ratio of absolute number of directors on the board of a company, in numbers), BD (Board diversity as measured by the proportion of female directors to the total directors of the board), AC (Audit committee size as measured by the number of audit members, in numbers), FA (Firm age, in years), BI (Independent director as measured by the number of independent directors on the board, in numbers) and BM (Board meeting as measured by the number of board level meetings held in a year, in numbers).

Variables	Minimum	Maximum	Mean	Std. Deviation
ROA	0.70	2.77	1.50	0.39
ROE	6.26	32.20	14.83	4.48
BS	5	11	6.96	1.20
BD	0	1	0.55	0.50
AC	2	5	3.17	0.62
FA	9	54	20.60	9.82
BM	5	73	28.81	13.44
BI	0	2	0.58	0.53

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 15 Nepalese commercial banks for the study period of 2015/16 to 2021/22. 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 stockholders' equity, in percentage). The independent variables are BS (Board size as measured by the ratio of absolute number of directors on the board of a company, in numbers), BD (Board diversity as measured by the proportion of female directors to the total directors of the board), AC (Audit committee size as measured by the number of audit members, in numbers), FA (Firm age, in years), BI (Independent director as measured by the number of independent directors on the board, in numbers) and BM (Board meeting as measured by the number of board level meetings held in a year, in numbers).

Variables	ROA	ROE	BS	BD	AC	FA	BM	BI
ROA	1							
ROE	0.468**	1						
BS	0.292**	0.176	1					
BD	0.255**	0.385**	-0.172	1				
AC	0.201*	0.083	0.301**	-0.152	1			
FA	0.123	-0.077	0.195*	0.169	-0.056	1		
BM	0.082	-0.002	0.040	0.210*	-0.148	0.454**	1	
BI	-0.123	0.210*	0.079	0.191	0.102	0.210*	0.024	1

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

Table 3 shows that board independence has a negative correlation with return on assets. It means that higher the number of independent directors on the board, lower would be the return on assets. Similarly, board diversity has a positive correlation with return on assets. It means that increase in proportion female directors on board leads to increase in return on assets. The results of the study also shows that audit committee has a positive correlation with return on assets. It implies that larger the size of audit committee, higher would be the return on assets. Likewise, board meeting has a positive correlation with return on assets which indicates that increase in the number of board meeting leads to increase in return on assets. However, firm age has a positive correlation with return on assets. This shows that increase in firm

age leads to increase in return on assets. Similarly, board size has a positive correlation with return on assets. It implies that larger the board size, higher would be the return on assets.

On the other hand, board independence has a positive correlation with return on equity. It means that higher the number of independent directors on the board, higher would be the return on equity. Similarly, board diversity has a positive correlation with return on equity. It means that increase in proportion female directors on board leads to increase in return on equity. The results of the study also shows that audit committee has a positive correlation with return on equity. It implies that larger the size of audit committee, higher would be the return on equity. Likewise, board meeting has a negative correlation with return on equity which indicates that increase in the number of board meeting leads to decrease in return on equity. However, firm age has a negative correlation with return on equity. This shows that increase in firm age leads to decrease in return on equity. Similarly, board size has a positive correlation with return on equity. It implies that larger the board size, higher would be the return on equity.

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 board size, board diversity, audit committee, firm age, board meeting and board independence on return on assets of Nepalese commercial banks.

Table 4

Estimated regression results of board size, board diversity, audit committee, firm age, board meeting and board independence on return on assets

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 $ROA = \alpha + \beta_1 BS + \beta_2 BD + \beta_3 BM + \beta_4 BI + \beta_5 AC + \beta_6 FA + e$ where 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 ratio of absolute number of directors on the board of a company, in numbers), BD (Board diversity as measured by the proportion of female directors to the total directors of the board), AC (Audit committee size as measured by the number of audit members, in numbers), FA (Firm age, in years), BI (Independent director as measured by the number of independent directors on the board, in numbers) and BM (Board meeting as measured by the number of board level meetings held in a year, in numbers).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	BD	AC	FA	BM	BI			
1	0.830 (3.771)**	0.097 (3.104)**						0.077	0.384	9.634
2	1.616 (28.537)**		0.204 (2.676)**					0.056	0.388	7.160
3	1.097 (5.519)**			0.128 (2.085)*				0.031	0.393	4.346
4	1.400 (15.437)**				0.005 (1.263)			0.006	0.398	1.594
5	1.433 (15.467)*					0.002 (0.830)		0.003	0.400	0.689
6	1.557 (27.006)*						-0.092 (1.261)	0.006	0.398	1.591
7	1.007 (4.381)*	0.085 (2.731)**	0.169 (2.248)*					0.112	0.377	7.534
8	0.665 (2.601)*	0.084 (2.589)*		0.079 (1.265)**				0.082	0.383	5.645
9	0.774 (3.323)**	0.093 (2.907)**			0.002 (0.427)	0.001 (0.461)		0.065	0.386	3.413
10	1.449 (14.030)**		0.236 (3.044)**		0.006 (1.280)	0.002 (0.763)		0.072	0.385	3.688
11	0.686 (2.707)**	0.087 (2.696)**		0.088 (1.410)			-0.119 (1.689)	0.098	0.379	4.783
12	1.110 (4.892)**		0.192 (2.435)*	0.127 (2.076)*		0.005 (1.702)	-0.076 (1.058)	0.092	0.381	3.641
13	0.737 (2.673)**	0.065 (1.975)*	0.169 (2.150)*	0.092 (1.463	0.005 (1.091)	0.003 (0.848)	-0.105 (1.454)	0.129	0.373	3.575

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. Return on asset is the dependent variable.

Table 4 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 Kyereboah-Coleman and Biekpe (2006). Likewise, the beta coefficients for board meetings are positive impact on return on assets. It reveals that board meetings have a positive impact on return on assets. This finding is similar to the finding of Heng et al. (2012). Likewise, the beta coefficients for board independence are negative with return on assets. It indicates that board independence has a negative impact on return on assets. This finding is inconsistent with the findings of Lim et al. (2007). The beta coefficients for audit committee size are positive with return on assets. It reveals that of audit committee size has a positive effect on return on assets. This finding is similar to the findings of Saha et al. (2018). Moreover, the beta coefficients for board diversity are positive with return on assets. It indicates that board diversity has a positive impact on return on assets. This finding is similar to the findings of Ntim (2015).

Table 5 shows the regression results of board size, board diversity, audit committee, firm age, board meeting and board independence on return on equity of Nepalese commercial banks.

Table 5

Estimated regression results of board size, board diversity, audit committee, firm age, board meeting and board independence on return on equity

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 ROE= $\alpha + \beta_1$ BS + β_2 BD + β_3 BM + β_4 BI + β_5 AC + β_6 FA + e where dependent variable is ROE (Return on equity as measured by the ratio of net income to total stockholders' equity, in percentage). The independent variables are BS (Board size as measured by the ratio of absolute number of directors on the board of a company, in numbers), BD (Board diversity as measured by the proportion of female directors to the total directors of the board), AC (Audit committee size as measured by the number of audit members, in numbers), FA (Firm age, in years), BI (Independent director as measured by the number of independent directors on the board, in numbers) and BM (Board meeting as measured by the number of board level meetings held in a year, in numbers).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	BD	AC	FA	BM	BI			
1	10.287 (4.043)**	0.653 (1.841)						0.022	4.438	3.291
2	16.744 (27.582)**		3.454 (4.299)**					0.140	4.162	17.886
3	12.959 (5.707)**			0.592 (0.843)				0.003	4.493	0.710
4	15.557 (15.203)**				-0.035 (0.779)			0.004	4.496	0.608
5	14.854 (14.224)**					-0.001 (0.019)		0.010	4.509	0.0001
6	15.864 (24.870)**						1.769 (2.182)*	0.006	0.398	1.591
7	13.722 (5.417)**	0.420 (1.229)	3.280 (3.965)**					0.144	4.152	9.743
8	9.798 (3.293)**	0.617 (1.626)		0.235 (0.321				0.013	4.458	1.683
9	16.263 (6.714)**		3.404 (4.026)**	0.176 (0.265)	-0.005 (0.120)			0.123	4.201	5.880
10	16.318 (14.554)**		3.570 (4.240)**		-0.027 (0.570)	0.036 (1.045)		0.123	4.180	6.280
11	13.787 (5.597)**			0.739 (1.059)	-0.012 (0.258)		1.813 (2.163)*	0.028	4.424	1.989
12	10.108 (3.239)**	0.661 (1.765)		0.381 (0.521)		0.001 (0.043)	1.935 (2.385)*	0.047	4.379	2.294
13	13.078 (4.252)**	0.485 (1.314)	3.072 (3.512)**	0.127 (0.182)	-0.026 (0.523)	0.032 (0.923)	1.241 (1.541)	0.142	4.157	3.859

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. Return on equity is the dependent variable.

Table 5 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 inconsistent with the findings of Dwivedi and Jain (2005). Likewise, the beta coefficients for board meetings are negative impact on return on equity. It reveals that board meetings have a negative impact on return on equity. This finding is similar to the finding of Salehi et al. (2017). Likewise, 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 inconsistent with the findings of Cotter and Silvester (2003). The beta coefficients for audit committee size are positive with return on equity. It reveals that of audit committee size has a positive effect on return on equity. This finding is similar to the findings of Owens-Jackson et al. (2009). Moreover, the beta coefficients for board diversity are positive with return on equity. It indicates that board diversity has a positive impact on return on equity. This finding is similar to the findings of Anifowose et al. (2017).

4. Summary and conclusion

Corporate governance is important for any organization because it creates a system of rules and practices that determine how a company operates and how it aligns the interest of all its stakeholders. Good corporate governance leads to ethical business practices, which leads to financial viability. Strong and effective corporate governance helps to cultivate a company culture of integrity, leading to positive performance and a sustainable business overall. Essentially, it exists to increase the accountability of all individuals and teams within the company, working to avoid mistakes before they can even occur. Hence, good corporate governance can lead to better firm performance.

The study attempts to analyze the impact of corporate governance on the organizational growth in the context 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, board diversity, audit committee, firm age and board meeting have positive effect on return on assets of Nepalese commercial banks. However, board independence has a negative impact on return on assets of Nepalese commercial banks. Similarly, the study also showed that board size, board diversity, audit committee and board independence have positive effect on return on equity of Nepalese commercial banks. However, firm age and board meeting have negative impact on return

on equity of Nepalese commercial banks. The study concluded that board size is the most influencing factor that explains the changes in return on assets of Nepalese commercial banks. The study also concluded that board diversity is the most influencing factor that explains the changes in return on equity of Nepalese commercial banks.

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