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Corporate Governance and Its Impact on Organizational Performance

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Abstract

Corporate governance is emerging issue in current market scenario and it refers to set of rules and incentives by which the management of the company directed and controlled. Corporate governance is the extent to which companies are run in an open and honest manner is important for overall market confidence. Governance is the sum total of processes, structures, institutions and customs through which the functional of governing is carried out This research study considered the impact of corporate governance on the perceived performance of commercial banks in Nepal. The main objective of this research is to find out the present status of corporate governance of Nepalese commercial banks and examine its impact on performance. Primary data has been used to collect information. The questionnaire was adopted from a previous validated survey. The descriptive and explanatory research design has been followed and stratified and convenience sampling method was used. The result of this research shows that the present status of corporate governance in Nepalese commercial banks are slightly agreeable. Different dimensions of corporate governance (discipline, transparency, accountability, responsibility, fairness, independence and social awareness) have played significant role to improve performance. Among these dimension, social awareness can play vital role to keep corporate governance of commercial banks in Nepal.

Keywords: *Transparency, Accountability, Fairness, Independence, Social awareness.*

1. Background

Corporate governance is defined as the process and structure used to direct and manage business activities towards creating financial prosperity of commercial bank. It is the system by which company are directed and controlled. It is a set of relationships between investors, shareholders, directors and others stakeholders to define each role and responsibility towards accomplishing goals. It is required for the well-functioning of state mechanism and society. Corporate governance can be defined as a combination of fairness, precision, accountability and sustainability of corporate behavior. Good corporate governance is a key factor to achieve the improved performance of an organization. The relative effectiveness of corporate governance has a profound effect on how well a business performs. For continuous and sustainable growth of an organization, there is no alternative to effective corporate governance.

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The positive effect of corporate governance on different stakeholders ultimately is a strengthened economy. Hence, good corporate governance is a tool for socio economic development. Disclosure and transparency are key pillars of a corporate governance framework in an organization because they provide all the stakeholders with the information necessary to judge whether their interests are being taken care of (Katrodia, 2010).

Maher and Anderson (1999) stated that corporate organizations have a responsibility to various parties, shareholders and other stakeholders such as employees, suppliers and even the society. They further argue that the corporate governance practices in an organization are very significant in determining the incentives and disincentives faced by all the above stakeholders who potentially contribute to firm performance. A desired governance system of a company can leads to improve company performance and consequently more access to outside capitals of company, thus it can provide sustainable economic growth. Modern governance can be basically categorized into two types, Parliamentary and Presidential form of governance, while the structure of government may be Unitary or Federal. Governance has wide-spread scope. It ranges from womb to tomb, ordinary public to the head of the state and village to the globe.

Corporate governance involves both internal and external mechanism. The internal mechanisms are concerned with the size and composition of the board of directors and external mechanisms are concerned with the influence of stakeholders, the functioning of the markets for corporate control (Chen & Lee, 2008). A good governance structure is to select the ablest managers and makes them accountable to investors (Adams & Mehran,2005).

Corporate governance basically explains the ways how the corporate firm is managed, controlled, and directed. It is set of the rules and indicatives which management of a company is directed and controlled to maximize profit and value of the company. It specifies how the rights and duties are being distributed among the board, managers, shareholders and stakeholders. Corporate governance seeks a structure that ensures the more equal balance of power between executive and non- executive directors. All these are essentially aimed at improving board independence, transparency and accountability to the company's shareholders and other stakeholders and its effectiveness in fulfilling both its performance and functions (Andres &Vallelado,2008).

For development-oriented economies like Nepal, improving corporate governance can serve a number of important public policy objectives. Good corporate governance reduces emerging market weakness to financial crises, reinforces property rights, reduces transaction costs and the cost of capital, and leads to capital market development. Weak corporate governance frameworks, reduce investor confidence and can discourage outside investment. This study tries to fulfill the huge gap by investigating the effects of corporate governance on the performance of selected commercial banks in Nepal in attempt to provide more empirical data in the local situation.

The study has been also focusing the corporate governance practices and its impact in performance in commercial bank in Nepal. Hence, the study mainly focused on following issues:

1. What is the present scenario of corporate governance position of commercial banks in Nepal?
2. Are there any effects of corporate governance on perceived performance of selected organizations?

2. Objectives of the Study

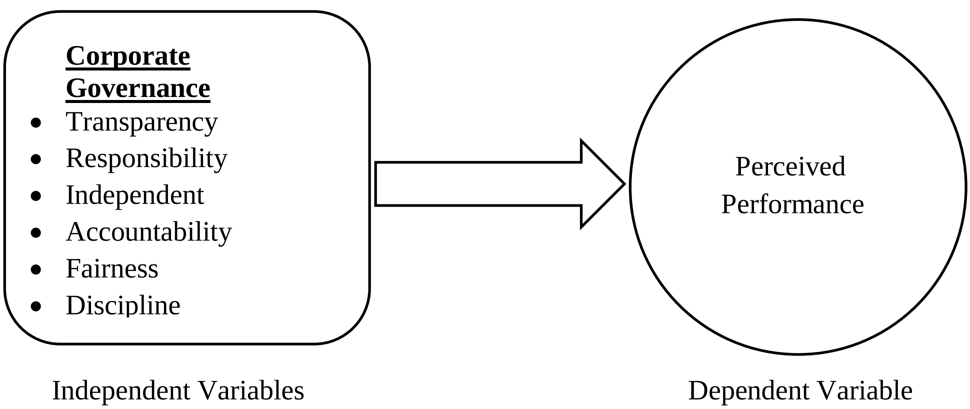
The basic objective of the study is to analyzed the level and structure of corporate governance in Nepal and determine its impact on perceived performance of Nepalese commercial banks. The specific objectives of this study would be as follows:

1. To assess the present scenario of corporate governance position of commercial banks in Nepal.
2. To examine the impact of corporate governance on return on perceived performance.

3. Conceptual Framework

Figure No. 1: The Theoretical Framework of Study

Corporate Governance and Perceived Performance



Source: Credit Lyonnais Securities Asia (CLS)

4. Review of Literature

Agrawal and Knoeber (1996) defined corporate governance as a system which has dual mechanism to control organizations; it can be external mechanism and internal mechanism. Outsiders define the external mechanism like shareholding policy and outside block holding etc. Firm's decision makers (top management) decide the internal mechanisms like size of board, remunerations and others internal policies.

The term 'governance' has been derived from the word 'gubernare' which means "to rule or steer" (Bhasin, 2010). The concept of corporate governance sounds so simple but someone tries to define, it creates confusing state of affair. But even though we have to clear idea about corporate governance. Organization for Economic Cooperation and Development (OECD 2000) concept of corporate governance is the relationship among various participants in the determining the directions and performance of corporations. The primary participants are (1) The shareholders, (2) The management (led by chief executive officer), (3) The Board of Directors.

Macey (2008) stated that corporate governance is broad descriptive terms rather than a normative term. Corporate governance describes all of the devices, institutions and mechanism by which corporations are governed. Anything and everything that influences the way that a corporation is actually run falls within the definition of corporate governance. Every device, institutions and mechanism that exercise power over decision- making with in a corporation is part of the system of corporate governance for that firm.

Corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. It is also about how to build trust and sustain confidence among the various interest groups that make up an organization.

According to World Bank 2011 “Corporate governance refers to the set of rules and incentives by which the management of a company is directed and controlled .and it refers to the way rights and responsibilities are distributed among the board, company management, shareholders and others stakeholders.”

Corporate Governance is the application of best management practices, compliance of law in true sense and letter spirit, law comprises of not only state law but also entity's own policy and procedures, internal control mechanism and standard operating practices, adherence to ethical standards for effective management and distribution of wealth to all the stakeholders, and Discharge of social responsibility for sustainable development of all stakeholders.

Deakin, S. Hobbs, R, et.al. (2006) contrasting view on role of independency in good corporate governance has been emerged by Organization for Economic Co-operation and Development. It indicated that efficient CG mostly relies upon the severances of power connecting a company's managers, directors, majority and minority shareholders. This study held accountable to manager under the self-governing oversight by the board of directors and external auditor. Good economic and political governance can result of good economic outputs, and for the business prosperity, good corporate governance is significant which can be assured by accountability. Additionally, corporate governance makes certain that electorates and stakeholders in taken accountable.
Lusaka (2005) report indicated that many of the Asian Businesses are intrinsically characterized by lack of transparency. Some other convergent arguments have also been discussed by Ananchotikul (2008), Black et. Al. (2003) Klapper and Love (2004) and Khanna et. Al. (2001) about transparency. They say that transparency is extremely imperative to a good corporate governance system hence it motivates shareholders confidence in the firm.

Lusaka and Zambia (2005) suggested that the concept of corporate governance can be defined as system of accountability among shareholders BOD's and the management of corporate entity. For achieving strategic corporate objective, decision making process must be held accountable. Furthermore, he also encompassed the essentials of good corporate governance like; fairness, transparency, accountability and responsibility are least standard which can offer maximum protection from financial crisis and can intensify the access to capital. One more developing inspection report that transparency, independence, accountability, discipline, fairness and social responsibility are major principles in good corporate governance.
Rogers (2008) conducted the research on 'corporate governance on financial performance of selected commercial banks in Uganda.' This paper aims at establishing the relationship between the core principles of corporate governance and financial performance in commercial banks of Uganda. Findings indicate that Corporate Governance predicts 34.5 % of the variance in the general financial

performance of Commercial banks in Uganda. However, the significant contributors to financial performance include openness and reliability. Openness and Reliability are measures of trust. On the other hand, credit risk as a measure of disclosure has a negative relationship with financial performance.

Miles (2010) indicated that Anglo American model is based on normative free market principles relies on various pre-requisites for its successful operation, guides about corporate governance that it has focus on the association between company directors and shareholders. To alleviate corporate governance problems different system has been adopted under the Anglo-American governance model to stream line the benefits of directors concerned to shareholders. The Model focuses first on director's independency as it is integral part of corporate governance control because these are the eyes and ears of shareholders and it can invite a constituent of objectivity for internal communication of company. Secondly, its emphasis on independency not only because, it can help in internal discussion but also due to commandment usually consider board of directors liable for different integral duties of company.

Miseda (2012) conducted the cross sectional and analytical research on commercial banks in Kenya to explore the effects of corporate governance practices and policies on financial performance through primary as well as secondary sources of data. The finding of the search was corporate governance play an important role on bank stability, performance and bank's ability to provide liquidity in difficult market conditions. And this research recommend that banks formally adopt and implement OECD Principles of Corporate Governance within their policies and procedures, and report on their compliance in their annual reports.

Mohammed (2012), considered the impact of corporate governance on the performance of banks in Nigeria. The increased incidence of bank failure in the recent period generated the current literature on quality of bank assets and also emphasized good governance as means of achieving banks objectives. This study made use of secondary data obtained from the financial reports of nine (9) banks for a period of ten (10) years (2001- 2010). Data were analyzed using multiple regression analysis. The study supported the hypothesis that corporate governance positively affects performance of banks. In conclusion, the study shows that poor asset quality (defined as the ratio of non-performing loan to credit) and loan deposit ratios negatively affect financial performance and vice versa.

Anshuman and Yatin (2014), investigated the effect of corporate governance on performance of Indian banks. Making use of the functioning of a sample of forty Indian banks, a comprehensive set of board characteristics (board size, number of meetings held in the past year, executive overlaps, busy directors and women directors) was explored and their impacts on the performance of the bank was analyzed. Regression analysis tool was used to determine the relevance of these parameters on each of several performance indicators namely return on assets, return on equity, return on long-term funds, earnings per share and price/book value. The findings conclude that the board of directors plays an extremely significant role in the return fetched by the bank on long term funds, but the significance (although still valid) decreases, within the domain of this study, in other performance indicators.

Poudel and Hovey (2012) analyzed the impact of corporate governance on efficiency of Nepalese commercial banks. Corporate governance variables are represented by board size, audit committee size, independence, diligence and ownership structure. The non-performing loan variable is used for bank's efficiency. The regression analysis is used to examine the relationship between corporate governance and efficiency of bank. The findings show that bigger board and audit committee size and lower frequency of board meeting and lower proportion of institutional ownership lead to better efficiency in the commercial banks.

Acharya (2018) conducted Ph.D. thesis on impact of corporate governance practices on the performance of commercial banks in Nepal through regression analysis. Specifically, the analysis focuses on the relationship between corporate governance mechanisms and financial performance. The results indicated that corporate governance structures, e.g., board size, existence of CFO, percentage of minority directors and the percentage of female directors have statistically positive effects on performance, while the percentage of external directors has a negative impact on bank performance.

Gnawali (2018), conducted the descriptive explanatory research to explore the present scenario of corporate governance compliance of Nepalese commercial bank and to examine the impact of corporate governance on return on assets and return on equity. This study took primary data through questionnaire method with the employee of selected commercial banks and secondary data from bank annual report. The correlation and regression analysis are used to test the relationship and impact of dependent and independent variables of the study. Finding of the study shows that corporate governance (Transparency, Independent, Accountability, Fairness, Social Awareness, Discipline and Responsibility) have significant positive effect on banks financial performance in Nepal in terms of Return on Asset (ROA) and Return on Equity (ROE).

Chen (2021) defined; corporate governance is a system of rules by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

Corporate governance is the combination of rules, processes or laws by which businesses are operated, regulated and controlled. Transparency, accountability towards shareholders, and fairness and dealings are the basic pillars of corporate governance. The term encompasses the internal and external factors that affect the interests of a company's stakeholders, including shareholders, customers, suppliers, government regulators and management. The board of directors is responsible for creating the framework for corporate governance that best aligns business conduct with objectives. Management and the board with important decisions being put to the vote of the shareholders.

Shrestha (2018) concluded that the transparency and disclosure are major factor that affects the performance of Nepalese commercial banking industry. The board and management disclosure, ownership structure disclosure, financial transparency and information disclosure and firm size are observed to have considerable factor in performance on banks. The objective of the study were to investigate the role of transparency and disclosure in corporate governance and firm performance in Nepalese commercial banking sector; to analyze the practices of corporate governance of Nepalese commercial banks; to evaluate the financial performance of Nepalese commercial banks; and to explore the impact of corporate governance in financial performance of Nepalese commercial banks.

The research design adopted in this study consists of descriptive and causal comparative research design to deal with the issues associated with role of transparency and disclosure in firm performance of Nepalese commercial banking sector. 17 banks were taken as the sample out of 28 commercial banks in Nepal. Data were collected through the annual financial reports of the banks. Governance is as old as human civilization, though it used to be rudimentary then. In traditional sense, governance implies the functions of controlling, directing, maintaining law and order and punishing in case of breach of law by state authorities. But in modern sense, governance implies the lawful activities and functions of people's representatives to pursue public interest embracing democratic norms and values.

UNDP, in its Strategy Note on Governance for Human Development, defines "Governance is the system of values, policies and institutions by which a society of values, policies and institutions by which a society manages its economic, political and society affairs through interactions within and among the state, civil society and private sectors."

5. Methodology

A descriptive research design was carried out for the purpose of this research. The research is descriptive and explanatory in nature. According to Nepal Rastra Bank report total number of fourth and fifth level employees working in selected commercial banks are 3235.These are the population of this study. Among them 450 questionnaires were distributed and only 330 respondents were returned, which represents to the total population size. The response rate was 73.33%. For the purpose of this study, survey method has been adopted and stratified sampling technique was followed to select the sample commercial banks. Among 27 commercial banks, 5 commercial banks were taken to the consideration for this research. Among 5 commercial banks, Nepal bank Ltd. was taken as government owned bank, Nepal SBI bank Ltd. and NIBL were taken as joint-venture owned bank. Similarly, Sanima bank Ltd. and Janata bank Ltd. were taken as private sector owned bank. Questionnaire to measure the corporate governance and organizational success have been adopted from Credit Lyonnais Securities Asia (CLSA). This questionnaire includes 37 questions to measure the corporate governance. This study uses five-point Likert scale questionnaire carried from "strongly disagree" toward "strongly agree" with number "1" to "5" representing respectively as instrument of data collection. Descriptive and inferential statistics were used to make analysis of data. To test the reliability cronbach α has been calculated. The value of Cronbach alpha of each and every item were greater than 70%. According to Sekaran (2000) Cronbach's Alpha coefficient less than 0.6 is considered as poor, greater than 0.6 but less than 0.8 is considered acceptable and greater than 0.8 is considered good. Here, Cronbach's Alpha of each variable is between 0.8 to 0.950. So, it is good. Therefore, the instruments used in this research are considered to be reliable for further study.

Multiple Regression Model- : Corporate Governance to Organizational Performance

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_{6+} \beta_7 X_{7+}\ ei$$

where,
$\hat{Y}$ = Perceived Performance, X_1 = Transparency, X_2 = Responsibility, X_3= Independent, X_4= Accountability, X_5= Fairness, $X_{6= \text{ Discipline,}}$ X_7 =Social Awareness, α = Constant, β_1 = Slope coefficients, e_i= Error term

5.1 Results

Table 1 Demographic Profile of Respondents
(Gender, Marital Status, Age Group, Work Experiences and Banking Organizations)

Respondent profile	Frequencies	Percent
Gender:		
Male	196	59.4
Female	134	40.6
Marital Status:		
Unmarried	152	46.1
Married	178	53.9
Age Group:		
20-24	120	36.4
25-29	138	41.8
30-34	34	10.3
35 and above	38	11.5
Work Experiences:		
Up to one year	96	29.1
1-2 years	160	48.5
More than 2 years	74	22.4
Banking Organizations:		
SBI Bank	70	21.2
Sanima Bank	74	22.4
Janata Bank	66	20.0
Nepal Investment Bank	72	21.8
Nepal Bank Limited	48	14.5
Total	**330**	**100.0**

Source: Field Survey 2022

Table 1 shows that among 330 respondents, 196 were male and remaining 134 were female. Hence, male respondents comprised 59.4 percent and female respondents comprised 40.6 percent. This shows that majority of respondents were male. Even though sample distribution is tentatively equal so the findings of the study can be generalized across gender. The questionnaire was distributed to married as well as unmarried respondents. Hence, unmarried respondents comprised 46.1 percent and married respondents comprised 53.9 percent of the total sampled respondents. The questionnaire was distributed to many employees having different age group. This was determining the percentage distribution of the age group of people who responded to the given questionnaire as known as in table 1. The minimum age of the respondents was 20 years and the maximum age of the respondents was 40 years. The questionnaire was distributed to respondents having different years of work experiences in the banking sector. The work experiences of respondents are shown in table 1. Table 1 also shows overall working experiences in the banking sectors of the respondents. It is clearly observed that 29.1 percent of total respondents have experiences of less than 1 years, the number of respondents fall in 2 years of experiences at 80 percent.

5.2 Descriptive Analysis

Descriptive statistics is discipline of quantitatively describing the main features of a collection of data. Descriptive statistics provides simple summary about sample and about the observations that have been made.

Table No. 2, Position of Discipline

Code	**Opinion Statement**	**N**	**Test scale**	**Mean**	**Standard Deviation**
DIS1	Bank has issued a 'mission statement' that explicitly places a priority on good corporate governance.	330	3	3.64	0.662
DIS2	Management sticks to clearly defined core businesses. (Any diversification into an unrelated area in last 3 years would count as NO)	330	3	3.73	0.719
DIS3	Over the past 5 years, it is true that the company has not declared any warrants against trespassers.	330	3	3.75	0.693
DIS4	Over the past 5 years, it is true that the company has not built up disciplinary action report.	330	3	3.71	0.615
DIS5	Bank's annual report includes a section devoted to the company's performance in implementing corporate governance principles.	330	3	4.04	0.573
	Discipline	**330**	**3**	**3.77**	0.296

Sources: Field Survey 2022

The result 2 shows position of an individual item and as a whole of discipline sub-factor. There are five statements used to measure the variable. Each of the 330 respondents submitted their response in the five-point Likert scale. The table 2 show that the items have a mean value ranging from 3.64 to 4.04 i.e. the response is slightly positive. The table shows that DIS5 has the highest mean 4.04 indicates that most agreed statement, annual report includes a section devoted to the company's performance in implementing corporate governance principles. DIS1 has lowest mean 3.64 indicates that less agreed statement is 'mission statement' that explicitly places a priority on good corporate governance. The aggregate mean of discipline was 3.77 with standard deviation of .296, this value is higher than test value i.e., 3. This shows that the discipline of employees working in selected banks are agreeable position.

Table No. 3 Position of Transparency

Code	Opinion Statement	N	Test value	Mean	Standard Deviation
TRA1	Management has disclosed three- or five-year performance report	330	3	4.19	0.489
TRA2	Public announcement of results has been made within 2 working days of board meeting	330	3	2.88	0.893
TRA3	The reports are clear and informative. (based on perception of analyst)	330	3	3.92	0.518
TRA4	Bank consistently discloses major and market sensitive information punctually.	330	3	3.59	0.796
TRA5	Analysts have good access to senior management. Good access implies accessibility soon after results are announced and timely meeting where analyst are given all relevant information and are not misled	330	3	3.72	0.601
TRA6	Bank has an English/ official language website where results and other announcements are updated promptly. (no later than one business day)	330	3	3.86	0.583
	Transparency	**330**	**3**	**3.69**	0.286

Source: Field Survey 2022

The table 3 shows that the items have a mean value ranging from 2.88 to 4.19 i.e., the response is average. The table shows that TRA1 has the highest mean 4.19 indicates that most agreed statement, management has disclosed three or five-year performance report. TRA2 has lowest mean 2.88 indicates that less agreed statement is public announcement of results has been made within 2 working days of board meeting. The aggregate mean of transparency was 3.69 with standard deviation of .286, this value is higher than test value i.e., 3. This indicates that the position of information disclosure in the commercial bank is transparent.

Table No. 4 Position of Independence

Code	Opinion Statement	N	Test scale	Mean	Standard Deviation
IND1	The chairman is an independent, non-executive director.	330	3	3.69	0.601

Code	Opinion Statement	N	Test scale	Mean	Standard Deviation
IND2	Bank has an executive or management committee, which is substantially different from members of the board and not believed to be dominated by referrals	330	3	3.74	0.764
IND3	Bank has an audit committee. it is chaired by a perceived genuine independent director.	330	3	3.92	0.615
IND4	Bank has a remuneration committee. It is chaired by a perceived genuine independent director.	330	3	3.95	0.617
IND5	External auditors of the company are in other respects seen to be completely unrelated to the company.	330	3	3.77	0.580
IND6	The board includes no direct representatives of banks and other large creditors of the Bank. (Having any representatives is a neg.)	330	3	3.76	0.614
	Independence	**330**	**3**	**3.77**	0.282

Source: Field Survey 2022

The table 4 show that the items have a mean value ranging from 3.69 to 3.95 i.e. the response is slightly positive. The table shows that IND4 has the highest mean 3.95 indicates that most agreed statement is bank has a remuneration committee. It is chaired by a perceived genuine independent director. IND1 has lowest mean 3.69 indicates that less agreed statement is chairman is an independent, non-executive director. The aggregate mean of independence was 3.80 with standard deviation of .282. this value is higher than test value i.e. 3. This shows that employees and executive body of Nepalese commercial banks are independent to their decision making

Table No. 5 Position of Accountability

Code	Opinion Statement	N	Test value	Mean	Standard Deviation
ACC1	The board members and members of the executive/management committee substantially different. (i.e. no more than half of one committee sits on other.)	330	3	3.64	0.732
ACC2	There are any foreign nationals on the board.	330	3	3.38	0.830
ACC3	Full board meetings are held at least	330	3	3.52	0.801

Code	Opinion Statement	N	Test value	Mean	Standard Deviation
	once a quarter.				
ACC14	Audit committee nominates and conducts a proper review the work of external auditors.	330	3	3.55	0.792
ACC5	Audit committee supervises internal audit and accounting procedures.	330	3	3.84	0.608
	Accountability	**330**	**3**	**3.57**	0.348

Source: Field Survey 2022

Among the five statements, the statement with code ACC5 highest mean 3.84 indicates that it is slightly agreed statement starting that audit committee supervises internal audit and accounting procedures. And the code ACC2 has lowest mean 3.38 indicates that there are any foreign nationals on the board. The aggregate mean of accountability was 3.57 with standard deviation of .348, this value is higher than test value 3. This shows that employees of Nepalese commercial banks are slightly accountable to their concerned officers

Table No. 6 Position of Responsibility

Code	Opinion Statement	N	Test value	Mean	Standard Deviation
RES1	The board/senior management have made decisions in the recent years seen to benefit them at the expense of management, has the company been seen as acting effectively against individuals responsible and corrected such behavior promptly, i.e. within 6 months	330	3	3.92	0.442
RES2	Over the past five years, there were open business failures or misbehavior; responsible persons were appropriately and voluntarily punished.	330	3	3.62	0.684
RES3	The board and/or senior management take measures to safeguard the interests of all and not just the dominate employees.	330	3	3.82	0.540
RES4	There are mechanisms to allow punishment of the executive/ management committee in the event of mismanagement.	330	3	3.78	0.553

Code	Opinion Statement	N	Test value	Mean	Standard Deviation
	Responsibility	**330**	**3**	**3.78**	0.294

Source: Field Survey 2022

Among the four statements, the statement with code RES1 has highest mean 3.92 indicates that it is slightly agreed statement starting that senior management have made decisions in the recent years seen to benefit them at the expense of management, has the company been seen as acting effectively against individuals responsible and corrected such behavior promptly. And, the code RES2 has lowest mean 3.62 indicates that over the past five years, there were open business failures or misbehavior; responsible persons were appropriately and voluntarily punished. The aggregate mean of responsibility was 3.78 with standard deviation of .294, this value is higher than test value i.e. 3. This shows that the responsibility is towards agreeableness. It shows that employees of commercial banks are responsible enough to their works.

Table No. 7 Position of Fairness

Code	Opinion Statement	N	Test value	Mean	Standard Deviation
FAI1	It is true that there have not been any controversy or questions raised over any decisions by senior management in the past 5 years where upper management are believed to have gained at the expense of middle or lower management.	330	3	3.64	0.689
FAI2	All the employees have access to their appraisal record.	330	3	3.39	0.852
FAI3	Criticism/suggestions methods are easily available.	330	3	3.81	0.489
FAI4	All information for appraisal criteria is made available prior to evaluation.	330	3	3.81	0.440
FAI5	It is true that there have been no questions or perceived controversy over whether the Company has issued transparency report or not.	330	3	3.93	0.575
FAI6	The head of department report to either the CEO or the board member concerned to employee's equality.	330	3	3.79	0.745
FAI17	Over the past five years, it is true that total director's remuneration has not increased faster than employees.	330	3	4.15	0.459

Code	Opinion Statement	N	Test value	Mean	Standard Deviation
	Fairness	**330**	**3**	**3.78**	0.271

Source: Field Survey 2022

The table 7 shows that the items have a mean value ranging from 3.39 to 4.15. Among the seven statements, the statement with code FAI7 has highest mean 4.15 indicates that it is agreed statement starting that over the past five years, it is true that total director's remuneration has not increased faster than employees. And the code FAI2 has lowest mean 3.39 indicates that all the employees have access to their appraisal record. The aggregate mean of fairness was 3.78 with standard deviation of .271, this value is higher than test value i.e. 3. This shows that job and reward system as well as record keeping system is fair in Nepalese commercial banks.

Table No. 8 Position of Social Awareness

Code	Opinion Statement	N	Test scale	Mean	Standard Deviation
SA1	Bank has an explicit (clearly worded) public policy statement that emphasizes strict ethical behavior: i.e. one that looks at the spirit and not just the letter of the law.	330	3	3.79	0.500
SA2	Bank has a policy/culture that prohibits the employment of the under aged.	330	3	4.05	0.747
SA3	Bank has an explicit equal employment policy.	330	3	3.88	0.693
SA4	Bank is explicitly environmentally conscious.	330	3	3.88	0.523
	Social Awareness	**330**	**3**	**3.90**	0.321

Source: Field Survey 2022

The table 8 show that the items have a mean value ranging from 3.79 to 4.05. Among the four statements, the statement with code SA2 has highest mean 4.05 indicates that it is agreed statement starting that bank has a policy/culture that prohibits the employment of the under aged. And the code SA1 has lowest mean 3.79 indicates that bank has an explicit public policy statement that emphasizes strict ethical behavior. The aggregate mean of social awareness was 3.90 with standard deviation of .321, this value is higher than test value i.e. 3. This shows that commercial banks show ethical behavior to the society and general public also give attention to their banking transactions.

5.3 Effect of Corporate Governance on Organizational Performance

The influence of corporate governance over Organizational Performance is analyzed with the regression analysis.

Table 9: Model Summary Organizational Strategy on Organizational Performance

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson	F	p value
1	0.649[a]	0.409	0.390	0.55689	1.924	25.293	0.001
a. Predictors: (Constant), Discipline, Transparence, Independence, Accountability, Responsibility, fairness and social awareness							
b. Dependent Variable: Perceived Organizational Performance							

Table 9 summarizes the model. The result shows that there is a significant impact of corporate governance on Perceived Organizational Performance. It signifies that a change in corporate governance will improve Organizational Performance. The finding of multiple regression analysis between corporate governance and Organizational Performance indicates that corporate governance is a significant predictor of Organizational Performance. The *R* value of 0.649 indicates the strong positive relationship between corporate governance and Organizational Performance ($F=25.293$, $p<0.01$).

Table 10: Multiple Regression Analysis: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Significance	Collinearity Statistics	
	β	Standard Error	β			Tolerance	VIF
(Constant)	1.768	0.182		9.737	0.001		
Discipline	0.029	0.058	0.030	0.507	0.612	0.449	2.229
Transparency	0.198	0.056	0.209	3.532	0.001	0.455	2.196
Independence	0.116	0.044	0.127	2.640	0.009	0.688	1.454
Accountability	0.162	0.073	0.159	2.210	0.028	0.307	3.254
Responsibility	0.180	0.057	0.176	2.398	0.016	0.535	1.869
Fairness	0.175	0.084	0.165	2.079	0.040	0.255	1.536
Social Awareness	0.678	0.066	0.673	10.275	0.000	0.156	1.354

From the above results, the estimated equation can be written by taking the values from the model-:

$\hat{Y}= \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_{6+} \beta_7 X_{7+} e_i$

Therefore, $\hat{Y}$ **= 1.768 + 0. 029*** X_1 **+ 0.198 *** X_2**+.116*** X_3 **- 0.162*** X_4 **+0.180 *** $X_{5\ +0}$**.175*x6 +0.678*x7**

Similarly, *R*-square value of 0.409 states that 40.9% change in performance is due to combined independent variables. Likewise, Standard error of the estimate of 0.556 indicates the variability of the observed value of Performances from regression line is 0.556 units. Since, VIF of each of independent variables is less than 10, there is no problem of multicollinearity in this model. Thus, it was shown that there is significant correlation between corporate governance and significantly predict the Organizational Performance. All the variables of corporate governance significantly influence the dependent variable organizational performance. The variable of corporate governance viz., Discipline has 2.9%, Transparence has 19.8%, Independence has 11.6%, Accountability has 16.2%, Responsibility has 18.0%, Fairness has 17.5 % and social awareness has 67.8% contributed towards Organizational Performance.

Likewise, *t*-value of the coefficient and their significance levels are reported in table 7. It is observed that the *t*-values of two variables are statistically significant at 1% level namely Transparency, Independence, and social awareness whereas, the variables namely, accountability, responsibility and fairness are significant at 5%. This suggests that these variables have a bearing on explaining the variability of organization performance. However, t-value for Discipline is not statistically significant. It was found that a change in Corporate Governance will improve Perceived organizational performance.

6. Findings and Discussion

This research paper infers that corporate governance has become surprisingly the emerging concept in rising and competitive markets. This study documented some frameworks to encounter the problems, which may cause inefficiency in banking sector; it would be helpful in preventing such problems in future to gain long term organizational success. This study helps to determine, to what extent the variables of corporate governance such as transparency, responsibility, discipline, fairness, social awareness, independence and accountability influence performance of commercial banks.

The analysis of descriptive findings showed that among various independent variables, social awareness had the highest mean 3.90 with standard deviation of 0.321. This shows that among all independent variables, social awareness impacts more on financial performance. In a nutshell, overall selected Nepalese commercial banks, the analysis of descriptive findings showed that among various dimension of corporate governance of selected commercial bank has the slightly agreeableness (i.e. mean value 3.76) of the respondents. It indicates that the Nepalese commercial banks do comply with the corporate governance in moderate level. The dimension of social awareness (i.e. 3.90 mean value) has the most emphasized. However, accountability (i.e. 3.57 mean value) has the weakest part of corporate governance of selected commercial banks. Results suggest that the commercial banks working in Kathmandu focused on increase in financial literacy through social awareness that also supports the financial inclusion policy of Nepal Rastra Bank. In consequences, there is not much impact of the corporate governance in the Nepalese commercial banks. The status of corporate governance is not so encouraging in the Nepalese commercial banks.

The value correlation coefficient 64.90% shows that there is significant relationship corporate governance with perceived performance. From the multiple regression analysis, corporate governance dimensions significantly impacts on perceived performance (i.e. R2 = 40.9%) . It indicates that corporate governance impact on overall perceived performance of Nepalese commercial banks.

This result supports few previous studies such as Miles, L. (2010), Ityas and Rafiq (2012), Mahammed (2012) who was concluded with performance has a link with corporate governance. Similarly, indications can be found in study of (Gnawali, 2018) in support that discipline is one of the major contributors in organizational success.

Since globalization, liberalization, privatization, modernization and competition are the five pillars for strengthening the financial sector; these concepts should be adhered to all the time in developing strategy for Nepalese commercial banks. These dimensions has opened Nepalese banking industry towards a greater competition and application of Good Corporate governance towards a significant comprehensive organizational performance.

Similarly, the corporate governance is a vital to different sectors of the economy, inclusive banking sector. The life of the organization always depends on its way for governance, while good corporate governance support perceived performance and can be implemented in Nepalese commercial banks. Strategy makers should also focus on social awareness to improve the banking transaction which improved the financial literacy, give independence to the employees to their works, discipline in organization, responsibility of workers, transparent and fairness in record keeping and in selection criteria. Generally, top management should take attention toward corporate governance in return to gain customers delighters which ensure the overall organizational success.

It is concluded that corporate governance has become an issue of worldwide importance. The corporation has a vital role to play in promoting economic development and social progress. It is the engine of growth internationally, and increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both private and public interest, and governance has thereby come to the head of the international agenda. Good corporate governance plays and effective role in the investment decisions of major institutions, and a premium is often reflected in the price of shares of companies that practice it. Evidence suggests that good governance also offers competitive advantage to firms.

There are around 40-50 legislation related to corporate governance framework in Nepalese context. Among them more applicable are company act 2063, Bank and financial act 2063, NRB directives to BFIs, Insurance Board directives to insurance companies, Securities registration and issuance rules 2065, for listed companies in NEPSE. Similarly, Sushasan Act 2064, Anti –corruption act 2059 and other related institutions for corporate governance are Transparency International, Nepal Chapter, and Commission for Investigation of authority abuse of authority (CIAA). National Vigilance Center, Hello Sarkar karyakram etc are the milestone in the field of CG in Nepal.

There is lack of research works in this field especially in developing countries like Nepal but adequate research works had been carried out in developed countries. Executive (Chief executive) Legislature (BOD and Annual GM) and the judiciary (Audit and internal control) systems of the organization should be efficient to keep an Institute within the good corporate governance systems. Corporate governance must encompass the combination of laws, regulations, voluntary corporate practices that enable the corporation to: attract capital, perform efficiently, achieve the corporate objective, maintain good relation with stakeholders, meet both legal obligations and general societal expectations.

7. Recommendation for Future Researchers

With this research on the relationship between organizational strategy and organizational performance, this area is ripe for future research. Among potential topics is the notion of how corporate governance and organizational performance in other sectors or bureaucratic or other service sectors can be undertaken for further exploring the subject phenomenon. In order to improve the future study, the sample size could be collected from the manufacturing firms or Government organizations across the country (Nepal). Further research might be carried out with more sample of banks, as this study only based on six commercial banks of Nepal. It may give new understanding the subject phenomenon. It can either attenuate or inflate correlations among variables. Furthermore, other moderating variables like MIS, customer loyalty, firm's size, age and structure, manufacturing costs, customer retention, and the success of marketing strategy etc. can also be explored further to understand the relationship between corporate governance and organizational performance.

In addition, a step further, Structural Equation Modeling approach of data analysis may be taken into account to moderating or mediating factors. Last but not the least, the next few years are likely to see increased global competitiveness in the Nepalese business environment, and the banking sector will also mature in terms of operational years. Therefore, it would be interesting to expand the survey to provide longitudinal survey of corporate governance and significant influence of the performance of the banks.

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