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Relationship between Corporate Governance and Firm Valuation in Nepal

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Abstract*: This study examines the effect of corporate governance mechanisms on firm valuation among 54 firms listed on the Nepal Stock Exchange over two fiscal years. A descriptive and causal-comparative research design was adopted to assess how board size, board independence, CEO duality, and audit committee presence influence firm performance, measured by Tobin's Q. Data were obtained from secondary sources, and statistical tools including descriptive statistics, Pearson correlation, and multiple linear regression were applied using SPSS software. The results show that board size has a positive and statistically significant impact on firm valuation, indicating that larger boards may enhance decision-making and oversight. CEO duality has a significant negative effect, suggesting that role separation contributes to better governance and firm value. However, board independence and the presence of an audit committee show no significant influence, reflecting their limited functional role in the Nepalese context. These findings highlight the contextual nature of governance effectiveness and the gap between formal structures and practical implementation. The study concludes that enhancing board effectiveness and leadership structure is critical for improving firm valuation, and recommends strengthening regulatory enforcement and governance practices in emerging markets like Nepal.*

Keywords*:* Corporate governance, Tobin Q, board size, CEO duality, audit committee

I. INTRODUCTION

Corporate governance, defined as the system through which business corporations are operated, regulated, controlled, and monitored, aims to uphold corporate fairness, transparency, and accountability (World Bank, 1999). It encompasses the relationships among various stakeholders and involves a set of processes, customs, policies, laws, and institutions that influence how a corporation is directed and administered. The linkage between corporate governance and firm performance has attracted significant attention in financial literature, being recognized as critical not only for strategic corporate planning but also for the development of effective regulatory mechanisms. Strong corporate governance is widely considered to enhance firm value, a claim supported by empirical evidence from

both developing and developed nations (Black, 2001; Klapper and Love, 2004; Gompers et al., 2003; Beiner and Schmid, 2005). Nevertheless, the nature, direction, magnitude, and operational dynamics of this relationship vary notably between developed and developing economies, owing to differences in economic structures, social systems, regulatory environments, and market behaviors (Hermalin and Weisbach, 1991; Ahunwan, 2003). For developing countries in particular, such as Nepal, recognizing and integrating these contextual differences is essential for understanding the true role of corporate governance in enhancing corporate value and shaping regulatory frameworks. Yet, these distinctions remain insufficiently examined in the context of developing countries like Nepal.

II. LITERATURE REVIEW

Cadbury (1992) defines corporate governance as the mechanism used to discipline organizations, yet its interpretation varies across disciplines, reflecting the diverse perspectives of scholars and practitioners. Fundamentally, corporate governance involves the policies and procedures adopted by firms to achieve defined objectives, missions, and visions, with respect to stakeholders including shareholders, employees, customers, suppliers, regulators, and the broader community. It delineates the distribution of rights and responsibilities among corporate participants—such as the board, managers, and shareholders—while establishing the rules and procedures for decision-making in corporate affairs. According to OECD (2004), this framework sets company objectives, outlines the methods for achieving them, and ensures mechanisms for monitoring performance.

Beyond its structural definition, corporate governance also addresses the concerns of external fund providers: how they ensure returns on their investments, prevent misuse of funds, and monitor managerial conduct. Morin and Jarrell (2001) emphasize that it acts as a framework safeguarding the interests of all market participants. Effective governance, as Li and Qi (2008) assert, strengthens internal controls, curbs opportunistic behavior, reduces information asymmetry, and enhances the quality of disclosed information. Consequently, sound governance practices are critical in determining a firm's cost of capital.

Recognizing its importance, several countries and organizations have developed corporate governance codes to guide firms toward greater accountability and value creation. These include the Cadbury (1992) in the UK, the Sarbanes-Oxley Act (2002) in the USA, the King Report II (2004) in South Africa, and others such as Brazil's CVM Code (2003), France's Bouton Report (2002), Russia's CG Code (2002), Singapore's CG Committee (2001), and the Commonwealth Guidelines (1999). In Nepal, however, a comprehensive corporate governance code is still lacking. Nonetheless, Nepal Rastra Bank has introduced the Unified Directives, 2078, which offer governance standards for banking and financial institutions under its purview.The significance of corporate governance is further underscored by Gompers et al. (2003), Bebchuk et al. (2005), Cremers and Nair (2005), Brown and Caylor (2006), and Black et al. (2006), who affirm its critical role in determining firm

value and performance. Researchers have analyzed both internal and external governance mechanisms, exploring their relationships with firm valuation and performance metrics. This study focuses on internal governance variables and their impact on firm valuation.

Board size and firm valuation. Empirical findings reinforce this connection. Drobetz et al. (2004) report a positive association between governance quality and firm valuation among German public firms, particularly highlighting the advantage of smaller board sizes. Similarly, Eisenberg, Sundgren, and Wells (1998) identify a negative relationship between board size and firm value, supported by Yermack (1996), who finds a negative correlation between board size and profitability. Lipton and Lorsch (1992) propose an optimal board size of seven to nine members, while Mak and Kusnadi (2005), and Sanda et al. (2005), also confirm that smaller boards are positively associated with higher firm value. These findings collectively emphasize that internal governance, especially board composition, significantly influences corporate valuation and performance

Table 1

Empirical evidences on board size and firm valuation

Author (year)	Sample (period)	Observations	Model	Tobin Q
Cheng (2008)	350 US firms 1984-1991	2,199	OLS	-*
Wintoki (2007)	>6,000 US firms 1991-2003	>16,000	OLS/FE/ GMM	
Beiner et al. (2006)	109 Swiss firms 2002	109	OLS/IV	+*/+*
Adams & Mehran (2005)	35 US firms 1986-1999	472	FE/IV	+*/+
Lasfer (2004)	1,424 UK firms 1990-91/ 1996-97	1,798	OLS	-*
Loderer & Peyer (2002)	169 Swiss frims1980-1995	330	OLS	-*
Eisenberg et al. (1998)	879, Finish firms 1992-1994	879	OLS/IV	-*
Conyon & Peck (1998)	481 UK firms 1992-1995	1924	GMM	-*
Yermack (1996)	452 US firms 1984-1991	3,400	OLS/FE	-*/-*

* denotes Statistical significance at the 10% level

Table 1 summarizes the empirical evidence on the effect of board size on valuation. A review of empirical studies examining the effect of board size on firm valuation reveals inconsistencies in the literature, with mixed findings across different contexts, methodologies, and time periods. For instance, Yermack (1996), using a sample of 452 US firms, reports a significant negative relationship between board size and firm value, indicating that smaller boards are more effective. Similar negative associations are found by Cheng (2008), Lasfer (2004), Loderer and Peyer (2002), and Eisenberg et al. (1998),

suggesting that an increase in board size could dilute effective decision-making and reduce firm valuation.

Beiner et al. (2006) and Adams and Mehran (2005), employing samples from Switzerland and the US respectively, identify a positive or partially positive association, implying that larger boards may bring in diverse expertise and improve monitoring capabilities in certain contexts. Wintoki (2007), using a comprehensive dataset of over 6,000 US firms, presents mixed findings depending on the econometric model used (OLS, FE, GMM), highlighting how methodological choices affect outcomes. Similarly, Conyon and Peck (1998) also show negative but less consistent results using a GMM approach. These divergent outcomes underscore the contextual and methodological sensitivities of the board size–valuation relationship, pointing to the need for nuanced, context-specific interpretations.

Board independence and firm valuation. Table 2 presents a review of empirical studies examining the relationship between board independence and firm valuation, as measured by Tobin's Q. The findings across these studies demonstrate inconsistencies in the literature, indicating that the impact of board independence on firm value remains inconclusive. Bhagat and Black (2002), in their study of 934 large U.S. firms, find no significant linkage between the proportion of outside directors and firm performance, suggesting that board independence alone may not be a determinant of firm value. Similarly, Hermalin and Weisbach (1991) report no association between outside director proportion and Tobin's Q, reinforcing the notion that structural board features might not directly translate into improved firm valuation.

Table 2

Empirical evidences on board independence and firm valuation

Study	Sample size	Focus of the study	Key findings
Bhagat and Black (2002)	934 large U.S firms	Board independence and performance	*No linkage between the proportion of outside directors and Tobin's Q,
Hermalin and Weisbach (1991)		Outside directors and Tobin Q	* No association between the proportion of outside directors and Tobin's Q.
Agarwal and Knoeber (1996)	383 large US firms, Forbes 800 (1987)	Performance and Control	*Tobin's Q decreases significantly with board outsiders, leverage, and corporate control activity. *Presence of non-executive directors is negatively linked with firm value.

In contrast, Agarwal and Knoeber (1996), based on their analysis of 383 large U.S. firms from the Forbes 800 list, find a negative relationship between board independence and firm

value. Their results suggest that Tobin's Q decreases significantly with a higher proportion of board outsiders, along with higher leverage and corporate control activities. Moreover, they argue that the presence of non-executive directors may, in fact, be negatively associated with firm performance. These divergent findings highlight the contextual and methodological complexities surrounding the role of board independence in influencing firm valuation.

CEO Duality and firm valuation. Table 3 presents a review of empirical studies on the relationship between CEO duality and firm valuation, revealing inconsistencies in the findings across different contexts and time periods. The literature offers conflicting evidence regarding whether combining the roles of CEO and board chair (duality) enhances or impairs firm valuation. Some studies support the superiority of non-duality structures. For example, Bai et al. (2004) and Rechner and Dalton (1991) find that non-duality firms outperform duality firms in terms of valuation and ROI, respectively. Similarly, Baliga et al. (1996) suggest that markets are largely indifferent to changes in duality, indicating that dual leadership may not necessarily add value. Song et al. (2006) find that valuation depends on ownership structure—duality is beneficial under high state ownership but non-duality is superior when state ownership is low.

Table 3

Empirical evidences on CEO duality and firm valuation

Study	Sample size	Focus of the study	Key findings
Song et al. (2006)	3,589 Chinese firms	CEO duality and performance i.e. ROE, ROA, Tobin Q	*Duality firms outperform non-duality firms when state ownership is high and Non-duality firms outperform duality firms when state ownership is low.
Bai et al. (2004)	2,905 firms	CEO duality and Valuation as Tobin Q	*Non-duality firms outperform duality firms.
Dalton et al. (1999)	228 firms	CEO duality and Market and accounting measures	*No significant relationship
Brickley et al. (1997)	661 large US firms	CEO duality and ROI, stock returns	*Duality is an optimal leadership structure. *The cost of separation is larger.
Baliga et al. (1996)	181 industrial firms1986-91	CEO duality and ROE, Stock returns	*Market is indifferent to changes in duality structure.
Rechner and Dalton (1991)	141firms1978-1983	CEO duality and ROI, profit margin	*Non-duality firms outperform duality firms.
Donaldson and Davis (1991)	321 firms	CEO duality ,ROE and Stock returns	*Duality firms outperform non-duality firms.

Conversely, other studies report favourable outcomes for duality. Donaldson and Davis (1991) conclude that duality firms outperform non-duality firms in terms of ROE and stock returns, while Brickley et al. (1997) argue that duality represents an optimal leadership structure due to the high cost of role separation. However, Dalton et al. (1999) report no significant relationship between duality and performance. Overall, the absence of a consensus in the literature, pointing to the context-dependent nature of CEO duality's impact on firm valuation.

Research framework and hypotheses

The proposed framework for this study as in *Figure 1* is designed to empirically test four key hypotheses concerning the relationship between corporate governance mechanisms and firm value. Each hypothesis builds upon the existing body of literature, which, as illustrated in Tables 1–3, presents mixed and sometimes contradictory findings. This framework thus aims to reconcile and contextualize global findings by empirically testing these hypotheses in a Nepalese setting.

Hypothesis 1 (H1) posits that board size is negatively related to firm value. This is grounded in the notion that smaller boards are more efficient in decision-making and monitoring. Table 1 provides empirical support for this view, with several studies—such as Yermack (1996), Lasfer (2004), and Eisenberg et al. (1998)—reporting a significant negative association between board size and firm valuation. However, the presence of contrasting evidence (e.g., Beiner et al., 2006; Adams & Mehran, 2005) also highlights the need to test this relationship within the contextual realities of this study.

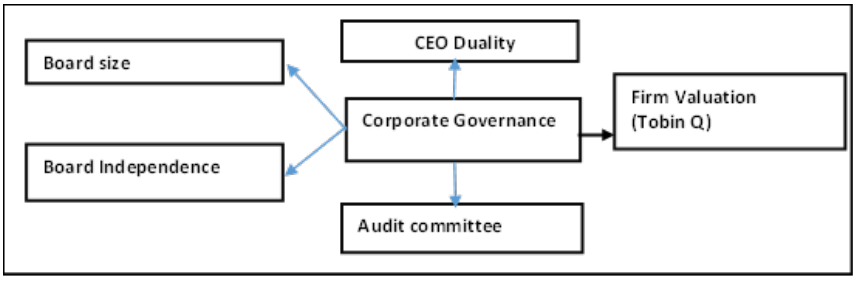
Hypothesis 2 (H2) proposes that independent directors positively influence firm value. This is based on the premise that independent board members strengthen oversight and reduce agency conflicts. Yet, as Table 2 shows, the literature is inconclusive—while Bhagat and Black (2002) and Hermalin and Weisbach (1991) find no significant relationship, Agarwal and Knoeber (1996) report a negative association. This inconsistency warrants further investigation, especially in the context of emerging markets like Nepal.

Hypothesis 3 (H3) asserts that the separation of CEO and board chair roles enhances firm value by improving checks and balances in governance. Table 3 reflects a similarly mixed picture. While Bai et al. (2004) and Rechner and Dalton (1991) support this view, others, such as Donaldson and Davis (1991), find the opposite.

Hypothesis 4 (H4) extends the framework to the role of the audit committee, hypothesizing a positive impact on firm value through enhanced financial oversight—a relationship widely acknowledged in governance literature but requiring contextual empirical validation.

Figure 1

Research framework of the study



III. RESEARCH METHODOLOGY

The research methods adopted in this study is structured to empirically examine the relationship between corporate governance mechanisms and firm valuation, specifically measured through Tobin's Q. The research begins by identifying key governance variables—such as board size, board independence, CEO duality, and audit committee presence—as explanatory variables. Tobin's Q, a widely accepted proxy for firm value, serves as the dependent variable. The study proceeds to test the hypothesized relationships using descriptive and causal-comparative research designs.

In this study, a set of well-established variables are used to test the hypothesized relationships between corporate governance mechanisms and firm valuation, drawing on prior scholarly frameworks to ensure consistency and comparability. These variables are chosen in alignment with both theoretical models and empirical studies and are directly linked to the hypotheses being tested in this research. Data for governance variables and firm value are drawn from credible secondary sources such as the annual trading reports of the Nepal Stock Exchange, publications from the Securities Board of Nepal (SEBON), the Nepal Rastra Bank's financial statistics, and annual reports of the sampled firms. This ensures data reliability and relevance.

The dependent variable is Tobin's Q, a widely used measure of firm value in corporate governance studies. Following the methodology adopted by Himmelberg et al. (1999), Palia (2001), and Bhagat et al. (2002), Tobin's Q is calculated as the ratio of the market value of a firm's assets (equity plus debt) to the book value (replacement cost) of those assets. More specifically, the market value of assets is computed by summing the market value of equity (i.e., the year-end market price per share multiplied by the number of common shares outstanding, expressed in million rupees) and the book value of total debt, while the book value of assets refers to the total assets as reported in the firm's balance sheet. Tobin's Q reflects the market's perception of a firm's value relative to its accounting value, thereby serving as a robust indicator of firm performance. The explanatory (governance) variables include:

Board Size (BSIZE). This is a straightforward count of the total number of directors serving on a company's board. It is included to test the hypothesis regarding the impact of board size on firm value, given the mixed evidence in the literature.

Board Independence (BIND). Defined as the proportion of independent (non-executive) directors on the board, this variable captures the degree of board autonomy and its potential to provide effective oversight.

CEO Duality (CEOD). A dummy variable where a value of 0 indicates duality (i.e., the same individual holds both the chairman and CEO positions), and 1 indicates separation of these roles. This variable is key to testing whether separation enhances governance effectiveness.

Audit Committee Presence (BAC). Another dummy variable, where a value of 1 denotes the existence of an audit committee within the firm, and 0 otherwise. The presence of an audit committee is generally associated with stronger financial oversight and accountability.

To test the stated hypotheses, this study employs an econometric model consistent with those commonly found in the existing literature. The model is specified as follows:

$$Q_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BIND_{it} + \beta_3 CEOD_{it} + \beta_4 BAC_{it} + \varepsilon_{it} \text{ ------(1)}$$

Where, Q: is the dependent variable (Tobin Q); β_0 is constant term $\beta_1, \beta_2, \beta_{3,} and \beta_4$ are coefficients of explanatory variables; ε_t is the error term assumed to have zero mean and independent across time period. This model framework allows for the assessment of the relationship between Tobin's Q and the selected explanatory variables, providing the basis for empirical testing of the study's hypotheses.

The population of the study comprises all listed firms in Nepal, and the sample includes 54 firms, totalling 108 firm-year observations for the fiscal years 2018/19 and 2019/20. This sample accounts for approximately 23.28 percent of the total population. Due to the dominance of the financial sector in Nepal's capital market in terms of trading volume and disclosure practices, financial institutions are heavily represented in the sample. The sectoral composition includes commercial banks, development banks, finance companies, insurance companies, manufacturing firms, hotels, hydropower, and trading firms—allowing for sectoral diversity while reflecting market realities. To analyze the data, the study uses statistical tools including averages, standard deviation, correlation, t-tests, F-tests, and regression analysis. SPSS version 18.0 is used for processing the data, and the estimation technique employed is Ordinary Least Squares (OLS). This methodology directly aligns with the hypotheses derived from previous empirical literature reviews, which showed inconsistent results regarding the effects of board size, board independence, CEO duality, and governance mechanisms on firm valuation—underscoring the relevance of this context-specific investigation.

IV. RESULTS AND DATA ANALYSIS

Table 4 presents the descriptive statistics for key governance and performance variables of 54 firms listed on the Nepal Stock Exchange (NEPSE). The average Tobin Q value is 2.057, indicating that most firms are valued higher by the market than the replacement cost of their assets, reflecting relatively strong performance. The average board size is 7.38 members, while board independence is notably low at just 5.2%, suggesting limited presence of independent directors. CEO duality is present in approximately 67.6% of the firms, indicating that in many cases, the same individual holds both the CEO and board chair roles, which may raise concerns about checks and balances. Additionally, 88% of the firms have an audit committee, reflecting strong adherence to governance norms. Overall, the table highlights considerable variation in governance structures and firm performance across the sample, which provides a basis for analyzing how these variables influence each other.

Table 4

Descriptive statistics

Variables	Tobin Q	BS	BIND	CEOD	BAC
Mean	2.057	7.380	0.052	0.676	0.880
St. Dev.	2.145	1.483	0.068	0.470	0.327
Minimum	0.260	5.000	0.000	0.000	0.000
Maximum	17.350	11.000	0.182	1.000	1.000

Table 5 presents the Pearson correlation matrix, which shows the strength and direction of linear relationships between the governance variables and firm performance (Tobin Q) for firms listed on the Nepal Stock Exchange (NEPSE). The results indicate a positive and statistically significant correlation between board size (BS) and Tobin Q ($r = 0.264$, $p < 0.01$), suggesting that larger boards are associated with better firm performance. In contrast, CEO duality (CEOD) has a significant negative correlation with Tobin Q ($r = -0.242$, $p < 0.05$), implying that firms where the CEO also serves as the board chair tend to perform worse, possibly due to reduced oversight. Other variables, such as board independence (BIND) and the presence of an audit committee (BAC), show weak and statistically insignificant correlations with firm performance. Additionally, CEOD and BAC are positively correlated ($r = 0.352$, $p < 0.01$), indicating that firms with CEO duality are more likely to have audit committees. Overall, the correlation matrix highlights that certain governance factors, particularly board size and CEO duality, are significantly associated with firm performance in the context of Nepalese listed firms.

Table 5

Correlation matrix

Variables	Tobin Q	BS	BIND	CEOD	BAC
Tobin Q	1.000				
BS	0.264**	1.000			
BIND	-0.083	0.147	1.000		
CEOD	-0.242*	-0.117	-0.081	1.000	
BAC	-0.059	-0.040	-0.009	0.352**	1.000

*Significance at the 5 percent and 1 percent levels are indicated by * and ** respectively.*

Table 6 presents the regression results analyzing the impact of board size (BS), board independence (BIND), CEO duality (CEOD), and the presence of an audit committee (BAC) on firm performance, measured by Tobin Q, using pooled cross-sectional data from 54 firms listed on the Nepal Stock Exchange (NEPSE) over 2018/19 and 2019/20 (108 observations in total).

In Model I, only board size is included as an explanatory variable. The coefficient for BS is 0.264 and statistically significant at the 1% level ($p = 0.006$), suggesting that larger boards are associated with higher firm performance. The model explains about 7% of the variation in Tobin Q ($R^2 = 0.070$) and is statistically significant overall ($F = 7.928$, $p < 0.01$). Model II adds CEO duality as a variable. Here, BS remains significant ($\beta = 0.258$, $p = 0.007$), and CEOD shows a negative and significant impact on Tobin Q ($\beta = -0.242$, $p = 0.012$), indicating that firms with CEO duality tend to perform worse. The model's explanatory power is slightly lower ($R^2 = 0.059$), but still significant overall ($F = 6.602$, $p < 0.05$).

Table 6

Regression analysis

Model	Intercept	BS	BIND	CEOD	BAC	F	R^2
	-.759	.264					
I	(-.744)	(2.816**)				7.928**	.070
	.458	***.006***					
	2.803			-.242			
II	(7.930**)			(-2.569*)		6.602*	.059
	.000			***.012***			
	.065	.258	-.140	-.235	. 032		
III	(0.056)	(2.771**)	(-1.505)	(-2.376*)	(.329)	4.006**	.135
	.956	***.007***	***.135***	***.019***	***.743***		

The figures in the parentheses are t-values and (*) and (**) indicates that the result is significant at 5 and 1 percent level. P-values are presented below the t-value in bold and italicized form.

Model III includes all governance variables. BS remains positively significant ($\beta = 0.258$, $p = 0.007$), and CEOD continues to show a significant negative relationship with Tobin Q

(β = -0.235, p = 0.019). BIND has a negative but insignificant coefficient (β = -0.140, p = 0.135), and BAC is not statistically significant (β = 0.032, p = 0.743). Model III shows improved explanatory power ($R^2 = 0.135$), indicating that including all governance variables enhances the model's ability to explain variations in firm performance.

Overall, the findings highlight that larger board size positively influences firm performance, while CEO duality negatively affects it, reinforcing the importance of separating leadership roles. However, board independence and the presence of an audit committee do not show significant effects in this context.

V. DISCUSSION AND CONCLUSION

This study set out to examine the relationship between key internal corporate governance mechanisms—board size, board independence, CEO duality, and the presence of an audit committee—and firm valuation in the context of listed firms in Nepal. The results from the descriptive statistics, correlation matrix, and regression analysis provide valuable insights, particularly when viewed in light of the mixed empirical findings documented in previous international studies (Tables 1–3).

Contrary to the prevailing view in much of the international literature that associates larger board sizes with lower firm value (Yermack, 1996; Lasfer, 2004; Eisenberg et al., 1998), this study found a positive and statistically significant relationship between board size and firm valuation ($\beta = 0.258$, $p < 0.01$). This is consistent with the descriptive mean board size of 7.38, aligning with Lipton and Lorsch's (1992) suggested optimal board size of seven to nine members.

While studies such as Cheng (2008) and Loderer and Peyer (2002) reported a negative relationship, our findings are more in line with Beiner et al. (2006) and Adams and Mehran (2005), who identified a positive or partially positive relationship between board size and firm performance. In the Nepalese context, this suggests that slightly larger boards may provide a broader range of expertise and oversight, which is particularly important in an emerging market with institutional voids and regulatory gaps. Larger boards in Nepalese firms may also reflect compliance with regulatory bodies like Nepal Rastra Bank, rather than bureaucratic inefficiencies.

The proportion of independent directors was found to be extremely low across the sampled firms (mean = 5.2%), and both correlation and regression results revealed no statistically significant relationship between board independence and Tobin's Q ($\beta = -0.140$, $p = 0.135$). This finding aligns with the work of Bhagat and Black (2002) and Hermalin and Weisbach (1991), who similarly observed no significant linkage between board independence and firm performance. Interestingly, the negative but insignificant coefficient echoes the findings of Agarwal and Knoeber (1996), who reported a negative association between board outsiders

and firm value. In the Nepalese setting, this may be attributable to the symbolic rather than functional role that independent directors currently play. Given the low representation and often limited authority or expertise of independent board members in Nepal, their presence alone may not translate into effective oversight or improved performance. The weak governance culture and lack of enforcement mechanisms further dilute their potential impact.

The regression results show a significant negative relationship between CEO duality and firm valuation ($\beta = -0.235$, $p < 0.05$), affirming the third hypothesis that separating the roles of CEO and board chair enhances firm performance. This finding is consistent with the conclusions of Bai et al. (2004) and Rechner and Dalton (1991), both of whom found that non-duality structures outperformed duality structures. In the Nepalese context, where CEO duality was observed in 67.6% of firms, the results indicate a potentially detrimental effect of power concentration. The lack of independent oversight in duality structures may reduce accountability, enabling managerial opportunism or inefficiencies. Thus, promoting role separation may help strengthen governance standards and investor confidence in Nepal's capital markets.

Despite the high prevalence of audit committees (88% of firms), the study found no significant relationship between audit committee presence and Tobin's Q ($\beta = 0.032$, $p = 0.743$). This suggests that while the audit committee is widely adopted—likely due to regulatory expectations—its functional effectiveness in improving firm performance may be limited. This aligns with the absence of audit committee-focused studies in Tables 1–3, highlighting a research gap. In the Nepalese context, this could reflect issues such as audit committee members lacking sufficient independence or technical expertise, or committees being underutilized as mere formalities. The quality and effectiveness of audit practices, rather than their mere presence, likely determine their impact on valuation—a nuance that quantitative data alone may not capture.

Overall, the findings suggest that corporate governance mechanisms in Nepal function differently compared to developed markets, reflecting contextual variations in institutional frameworks, regulatory enforcement, and market maturity. While board size and CEO duality are significant predictors of firm value in the Nepalese setting, board independence and audit committees do not yet exhibit substantial influence—possibly due to their underdeveloped or symbolic role. These results underscore the need for not just formal adoption but also the functional empowerment of governance mechanisms to enhance firm performance in Nepal.

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