



## Corporate governance and bank performance in Nepal

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### Abstract

This research study reveals that how corporate governance effect on profitability of commercial banks using empirical results drawn from balance panel data analysis including 7 commercial banks of Nepal for the fiscal year A.D. 2011/12 to 2020/21. The return on equity is selected as Bank's performance variables for this study and it is the dependent variables. Board size, audit committee meeting, female board member and board meeting is independent corporate governance variables which affect the profitability of the bank. The data are collected from the annual reports of respective bank, financial statements of commercial banks, the websites of the individual banks, the websites of the Central Bank, and the annual report of the Nepal Rastra Bank. In addition to these, different published articles, report, books and magazines are also analyzed. Descriptive and causal comparative research designs are employed. Data analysis tools are descriptive statistics, correlation analysis and regression analysis. Random effect model and fixed effect model were taken as fitted model after the model diagnosis using Eviews-12 computer software. The result shows that there is a significant impact of corporate governance on ROA. The board meeting, female board member and total assets are significant impact on ROE but board size and audit committee meeting has insignificant effect on ROE. The result shows that there is a positive significant impact of board meeting on ROE in the financial institutions mainly Commercial Banks whereas the female board member, CAR and total assets has significant negative effect on return on equity.

The study found that Weak corporate governance can lead to a serious financial crisis and affect the Country's economy as well as the company. In order to operate the banking industry and the economy as a whole effectively, corporate governance must be effective.

**Keywords:** Return on equity, board size, audit committee meeting, female board member, board meeting, capital adequacy ratio, and bank size

### Introduction

The term "corporate governance" refers to the structure put in place to manage and direct businesses. It is the duty of each company's board of directors to ensure that it is being run efficiently and ethically. To ensure an appropriate governance structure is in place, it is the shareholders' responsibility to appoint directors and auditors. Nowadays, corporate governance is a hot topic in the business world. The corporate governance structure defines the roles and responsibilities of various corporate actors, including the board of directors, the chief executive officer, the shareholders, and the audit committee, and it lays out the rules and procedures for making decisions pertaining to the corporation (Pradhan & Adhikari, 2011) <sup>[14]</sup>. Banks play a crucial role in any functioning economy. Corporate governance in the banking sector was already important before the Asian financial crisis of 1997–1998 and the global financial crisis of 2007–2008. Banks' impact on the economy is amplified by good regulation and corporate governance. Given the interconnected nature of the financial sector, the success of a country's banking system is crucial to the prosperity of its citizens, who include the banking sector's shareholders, creditors, customers, and employees. If banks don't have proper corporate governance in place, the market may lose faith in their abilities, which could trigger a recession (Garcia-Marco and Robles- Fernandez, 2008) <sup>[5]</sup>. Property rights, low transaction costs, and a flourishing capital market are just a few of the many benefits of good governance (Claessens and Fan, 2002) <sup>[2]</sup>. Corporate governance reforms are especially important for a

developing country like Nepal because they increase FDI and capital market savings mobilization. Nepal Rastra Bank, the country's central bank, issued directives in 2005 intended to strengthen corporate governance, but it has since reported multiple failures on the part of various banks. As a result, the purpose of this research study is to identify the gaps and propose solutions.

Corporate Governance ensures transparency, accountability, and professionalism in the financial system, which boosts the system's credibility and acceptability among stakeholders like shareholders, employees, present and potential investors, customers, lenders, governments, and the general public, as demonstrated by a review of relevant literature and Corporate Governance principles from the banking perspectives. The trust of the general public is crucial, as banks deal with tax dollars (Gorkhali, 2010) <sup>[6]</sup>. In order to improve corporate governance, it is necessary to establish clear strategies and a well-defined organizational structure to implement a strategic, transparent reporting system in a controlled, ethical manner (Kharouf, 2000). All corporations, as stated by Poudel and Hovey (2011) <sup>[13]</sup>, should take Corporate Governance seriously. The Asian economic crises of 1997–1998 drove home the need for strong corporate governance. For economies in developing countries like Nepal's to thrive, bank governance is critical.

### Theoretical and empirical review

#### Theoretical review

The main objective of corporate governance is to promote accountability, transparency, and ethical behavior within the

organization. Corporate governance theory emphasizes the importance of a strong and independent board of directors, responsible for overseeing the company's management and making strategic decisions that align with the interests of shareholders and other stakeholders. According to the agency theory, which is a widely accepted theory of corporate governance, the board of directors acts as an agent on behalf of the shareholders, who are the principal owners of the company. The board is responsible for ensuring that management operates in the best interests of the shareholders and the company as a whole (Otman, 2014)<sup>[11]</sup>. Their study supports the argument that when firms implement good corporate governance, the result is improved firm performance (financial performance and market value). They also support for the agency theory perspective that corporate governance mechanisms may mitigate agency problems, leading to an improvement in the performance of the company. They conclude good corporate governance can facilitate a good relationship between management and stakeholders, thereby enhancing the firm's performance.

Another important theory of corporate governance is stakeholder theory, which argues that companies have a responsibility to consider the interests of all stakeholders, not just shareholders. This theory emphasizes the importance of corporate social responsibility and sustainability, and suggests that companies should strive to create value for all stakeholders, including customers, employees, suppliers, and the wider community.

In summary, corporate governance theory is focused on creating a system of rules, practices, and processes that promote accountability, transparency, and ethical behavior within a company. It emphasizes the importance of a strong and independent board of directors, responsible for overseeing the company's management and making strategic decisions that align with the interests of shareholders and other stakeholders.

### Empirical review

According to Miles (2010)<sup>[10]</sup>, the Anglo-American model, which is founded on free-market norms and depends on a number of requisites for its proper functioning, includes guidelines about corporate governance that place special emphasis on the relationship between a company's directors and their shareholders. The Anglo-American governance model is a new approach to corporate governance that aims to streamline the benefits of directors concerned with shareholders. Since directors serve as the shareholders' eyes and ears and can add a measure of objectivity to internal company communications, the Model places a premium on their independence. Second, it places a premium on autonomy because, among other benefits, it facilitates in-house dialogue and, more importantly, because the law typically holds the board of directors accountable for a wide range of functions essential to the company's success. Research by Otman (2014)<sup>[11]</sup> examined the claim that companies with strong corporate governance practices have higher profits (financial performance and market value). They also lend credence to the agency theory viewpoint that suggests corporate governance mechanisms may reduce the negative effects of agency problems on the business. They conclude that improved communication and trust between the company's management and its stakeholders can have a positive impact on the business.

Gupta and Wei (2018)<sup>[7]</sup> analyzed the impact of corporate governance variables on non-performing loans at commercial banks in Nepal over a five-year period, from fiscal 2010/2011 to fiscal 2015/2016. The number of board members, the number of independent directors, the number of audit committee members, the percentage of foreign ownership, the percentage of domestic ownership, the number of CEOs, the age of the bank, the number of female directors on the board, the number of board meetings held per year, and the percentage of nonperforming loans to total assets are all used as dependent variables. The 108 observations used in this study come from websites and annual reports of 18 Nepalese commercial banks. Regression analysis was used on the collected data to determine the relative importance of the various contributing factors to the dependent variable of interest. The research found that a higher ratio of nonperforming loans is associated with a more diverse board, directorate, and audit committee, and that the converse is also true. The presence of foreign ownership has a negative effect on performance, while domestic ownership has a positive effect on a bank's profitability. The use of a co-CEO has been linked to similar, unfavorable outcomes. There is a positive correlation between a bank's age, the presence of a female director, the frequency of board meetings, and the size of the bank.

Between 2005 and 2011, Poudel and Hovey (2013)<sup>[13]</sup> analyzed how corporate governance affected the performance of Nepalese commercial banks. Governance metrics include the number of directors, their autonomy and responsiveness, the composition of the Audit Committee, and the company's ownership structure. Efficiency in banking is measured in part by the percentage of loans that are currently in default. Corporate governance and bank efficiency are analyzed using a regression model. The results demonstrate that commercial banks are more productive when they have larger board and audit committee sizes, fewer board meetings per year, and a smaller share of institutional ownership. Corporate governance and firm performance are theoretically connected in a way that was first outlined by Jensen and Meckling (1976). Through integrating concepts from the agency theory, property cost theory, and financial theory, they created the theory of the ownership structure of the firm. They analyzed the agency cost of both equity and debt, and they thoroughly explained the firm's definition, agency cost, and property rights. It was discovered that when a manager's stake in the company decreases, he has less of an incentive to work hard to boost the company's value, which in turn increases the agency cost and reduces the net worth of the company. The value of the company will rise in tandem with the manager's ownership stake. A common assumption is that companies with solid corporate governance practices perform better overall. However, there are contradictory studies that challenge this assumption. Therefore, claiming a direct causal relationship between corporate governance and firm performance is either inconsistent or unable to be substantiated.

### Methodology

This research study reveals that how corporate governance effect on profitability of commercial banks using empirical results drawn from balance panel data analysis including 7 commercial banks of Nepal for the fiscal year A.D. 2011/12

to 2020/21. The data are collected from the annual reports of respective bank, financial statements of commercial banks, the websites of the individual banks, the websites of the Central Bank, and the annual report of the Nepal Rastra Bank. In addition to these, different published articles, report, books and magazines are also analyzed. Descriptive and causal comparative research designs are employed. Data analysis tools are descriptive statistics, correlation analysis and regression analysis. Random effect model and fixed effect model were taken as fitted model after the model diagnosis using Eviews-12 computer software.

### The model

Estimating models which regress Return on Equity on Variables of Corporate Governance allows us to investigate ROE in depth. Multiple regression techniques are employed to analyze the data. The corporate governance variables considered are board size, audit committee meeting, female board member and number of board meetings. The control variable considered is capital adequacy ratio and bank size. The following panel regression model is used for this study based on the above variables.

$$ROE_{it} = \beta_0 + \beta_1 BSS_{it} + \beta_2 FBM_{it} + \beta_3 NBM_{it} + \beta_4 NAM_{it} + \beta_5 CAR_{it} + \beta_6 BS_{it} + \epsilon_{it}$$

Where,

$\beta_0$  = Constant Term  $\beta_1$  to  $\beta_6$  = Coefficient of Variable that represents the degree of changes on ROE as the independent variable changes by one unit.

ROE<sub>it</sub> = Return on equity of bank in year t

BSS<sub>it</sub> = Board sizes of bank in year t

FBM<sub>it</sub> = Female board member of bank in year t

NBM<sub>it</sub> = No. of board meeting of bank in year t

NAM<sub>it</sub> = No. of audit meeting of bank in year t

CAR<sub>it</sub> = Capital adequacy ratio of bank in year t

BS<sub>it</sub> = Bank size of bank in year t

$\epsilon_{it}$  = Error component

### Dependent Variable

#### Return on equity

Return on Equity (ROE) is a financial metric used to measure the profitability of a company in relation to its shareholders' equity. It is used as dependent variable under the study. Therefore, it is a frequently used financial ratio to evaluate the bank performance in the literature. It is expressed as a percentage and calculated by dividing a company's net income by its shareholders' equity.

### Independent Variables

#### Board size (BS)

The board size in corporate governance refers to the number of directors who sit on a company's board of directors. The size of the board can vary greatly depending on the company's size, structure, and industry. According to research (Silwal, 2016) [17], a company's performance is significantly impacted by the size of its board of directors. The firm's performance would improve if the board were larger. According to research conducted in Ghana's insurance industry (Wereko, Corporate Governance and Firm Performance: Evidence from Ghana's Insurance Sector, 2012) [21], a larger board is associated with a higher average return on assets.

### Board meeting (BM)

The number of board meetings and their frequency in banking is often determined by regulatory requirements, as well as the bank's internal policies and procedures. It is important for banks to ensure that they have adequate board meeting frequency to provide proper oversight and governance of the bank's operations. According to research conducted by DeZoort (2002) [3], more frequent meetings correlate with better financial reporting and auditing. The frequency of board meetings is correlated with a number of contextual variables, such as board autonomy and organization size. As of 2006, the Nepal Rastra Bank reported that. Whenever the Board convenes, the Governor will serve as the meeting's chair. Meetings of the Board will be held as often as once per month, or as often as is necessary, determined by the Bank. The Governor is responsible for calling Board meetings, but the Governor must also do so if requested to do so in writing by at least three Board Directors.

### Female board members (FBM)

The role of female directors in bank performance has been a subject of increasing interest and research in recent years. Studies have shown that having more female directors on a bank's board can positively and negatively impact the bank's performance in several ways. The percentage of board members who are women and the percentage of companies that have at least One Female Director.

A study found that the gender pay gap narrowed when there were more women on the board's compensation committee, which determines salaries for the company's top executives. Shrader *et al.* (1997) [16] states that there is a positive link between women (diversity) in managerial positions and institution financial performance. According to Richard (2000) [15] diversity adds value and is observed as a competitive advantage for banks. On the contrary, Earley and Mosakowski (2000) suggest that greater gender diversity may serve to reduce institution performance and this is due to the fact that members of homogeneous groups are more likely to share the same opinions and consequently tend to communicate more.

### Number of audit meeting

The audit committee meeting plays a crucial role in overseeing the financial reporting, risk management, and internal controls of a bank. The committee is responsible for ensuring that the bank's financial statements are accurate, complete, and comply with accounting standards and regulations. According to Al-Mamun (2014) [1], an organization's agency problems and information asymmetry can be mitigated through consistent audit committee meetings that deliver accurate and timely information to investors. A reduction in corporate fraud is possible if the audit committee is objective and operates fairly (Yunos *et al.*, 2014) [22]. The committee's impartial members could examine financial statements to get a clear picture of the company's success or failure based on metrics like its equity, net income, total assets, and sales (Subrata & Sarkar, 2013). It was hypothesized by DeZoort *et al.* (2002) [3] that a company's attention to its investors' best interests would increase if its audit committee met more frequently.

### Bank size (BS)

A bank's total assets can be an important indicator of its performance, but it is not the only factor that determines its success. Total assets refer to the value of all the assets that a bank owns, including cash, loans, securities, and other investments. In general, a larger bank with more total assets may have more resources and a broader customer base, which could allow it to generate more revenue and profits. To determine the size of a company, asset size (FS) has been used. As might be anticipated, larger banks will outperform their smaller counterparts due to their superior management, cutting-edge infrastructure, large workforce, and wide array of investment options. (Luxi Chen 2013) shows that the positive effect of corporate governance on firm performance is amplified by firm size, and that the coefficient in the model is statistically significant.

**Capital adequacy ratio (CAR)**

The Capital Adequacy Ratio is a measure of a bank's ability to raise capital and invest in its future (Unite & Sullivan 2003; Naceur & Kandil 2009). Compliance with a Capital Adequacy Ratio can improve operational and security functions (Siamat, 2004). Having a healthy Capital Adequacy Ratio, along with competent management and profitable lending practices, can boost a bank's performance (Utama & Musa, 2011) [20]. Naccur and Kandil (2009) argue that regulators' mandated minimum Capital Adequacy Ratio will improve financial institutions' efficiency. Capital Adequacy Ratio, according to Supriyatna *et al.* (2007) [19],

can be used to categorize the success or failure of a bank. In addition to reflecting a bank's level of compliance with the regulation, the Capital Adequacy Ratio also represents the extent to which it safeguards the public interest. The Basel Committee review suggests that central bank or government regulatory monitoring affects banking performance, especially profitability, through the Capital Adequacy Ratio, as stated by Brigham and Erhardt (2005). The Capital Adequacy Ratio is a measure of a bank's resilience in the face of balance sheet shocks. Capital adequacy in commercial banks is the relative risk weights assigned to the various asset categories held both on and off balance sheet (Fourier, 2006; Matama, 2008) [4].

**Results and finding**

The necessary data are gathered from annual reports and the NRB's key financial indicators report of sample banks. In this section, collected data are presented and analyzed using different mathematical and financial tools and techniques. The necessary data are gathered from annual reports and the NRB's key financial indicators report of sample banks. In this section, collected data are presented and analyzed using different mathematical and financial tools and techniques.

**Descriptive Statistics**

Descriptive statistics are used to summarize and describe the characteristics of a set of data under study. It also provides a basis for more advanced inferential statistical analysis.

**Table 1:** Descriptive statistics of ROE, BM, ACM, BS, FBM, CAR and TA

variables	Mean	STD.	Maximum	Minimum	Obs.
ROE	17.68	5.97	33.17	8.56	66
BM	25.85	15.84	73	12	66
ACM	16.95	13.95	76	4	66
BS	7.14	1.09	9	5	66
FBM	0.55	0.64	2	0	66
CAR	14.23	2.98	23.68	11.01	66
TA	116995.0	68098.07	346148.0	25580.00	66

Note: Annual report of sample banks and NRB, results are drawn from EViews-12

As per table 1 ROE is used as dependent variable to measure the profitability of the bank has mean on of 17.68 % maximum 33.17 and minimum of 8.56. It means average return on equity of commercial banks of Nepal lies between 8.56 and 33.17. Board meeting is independent corporate governance variables that effect the bank performance, has a mean on of 25.85, a maximum of 73 and minimum 12. It means average board meeting of commercial banks of Nepal lies between 12 and 73. On the other independent variables, audit committee meeting has a mean 16.95, a maximum of 76 and minimum 4. It means average audit committee meeting of commercial banks of Nepal lies between 76 and 4. Similarly board size, has a mean on of 7.14, a maximum of 9 and a minimum of 5. It indicates that the board size of Nepalese commercial banks lies between 5 and 9. On the other independent variables, numbers of female member a representative of board female member which effect the board performance has a mean on of 0.55, a maximum of 2 and a minimum of zero. It shows that the participation of female member on board has too poor. Furthermore, capital

adequacy ratio (CAR) has mean 14.23%, a maximum of 23.68% and a minimum of 11.01% which indicates between 11.01% and 23.68% CAR lies of commercial bank of Nepal. Likewise, total assets (TA) have mean Rs. 116995.0 in millions, a maximum of Rs. 346148.0 in millions and a minimum of Rs.25580.0 in millions which indicates between Rs.346148.0 and Rs. 25580.0 in millions TA lies of commercial bank of Nepal.

**Inferential statistics**

**Correlation analysis**

Correlation analysis is a statistical tool to measure the strength of linear association between two or more than two variables. The value of correlation coefficient always lies between -1 to +1. Correlation coefficient +1 means there is strongly positively association between the variables while correlation coefficient -1 means there is strongly negatively association between the variables. Similarly, correlation coefficient 0 means there is no association between the variables.

**Table 2:** Pearson Correlation Analysis of ROE, BM, ACM, BS, FBM,CAR and LNTA

Variables	ROE	ACM	CAR	FBM	BM	BS	LNTA
ROE	1.0000						
ACM	-0.2665	1.0000					
	0.0305						
CAR	-0.3642	0.3164	1.0000				
	0.0026	0.0096					
FBM	-0.3945	0.1535	0.6011	1.0000			
	0.0010	0.2186	0.0000				
BM	-0.3595	0.7282	0.3255	0.2522	1.0000		
	0.0030	0.0000	0.0077	0.0410			
BS	0.0250	0.2736	-0.1032	-0.0201	0.1556	1.0000	
	0.8418	0.0262	0.4098	0.8729	0.2121		
LNTA	-0.4004	0.2739	0.2020	0.1296	0.4203	-0.3373	1.0000
	0.0009	0.0261	0.1039	0.2997	0.0004	0.0056	

Note: Results are drawn from EViews-12

According to the table there is negative correlation between ROE and board meeting i.e. -0.359505, which means higher the board meeting then lower the ROE and vice-versa. Similarly, the value of correlation  $r = 0.025$  which means there is a low positive linear relationship between board size and return on equity which means higher the board size higher the return on equity and vice-versa. Likewise, there is moderate negative correlation between female board members and ROE i.e.  $r = -0.394528$  which indicates lower the female board members would be higher the ROE and vice versa. At the same time, there is low negative relationship between audit committee meeting and return on equity i.e.  $r = -0.2665$  which means lower the audit committee meeting higher the return on equity and vice-versa. Furthermore, the value of correlation  $r = -0.364$  which indicates there is moderate negative relationship between capital adequacy ratio and returns and equity which means higher the CAR would be lower the ROE and vice-versa. Finally, there is negative relationship between bank size and return on equity i.e.  $r = -0.400368$ . it indicates higher the bank size would be lower the bank performance and vice -versa.

**Regression analysis**

In order to test the fitness of the regression model, Bresch pagan test and Hausman test have been employed. As per regression test run on the E-views 12 version, Fixed Effect Model shows the best fit describing the regression relation of between the ROE and the independent variables. Significance pf the FEM is depicted at 5 percent significance level.

**Table 5:** Regression result of ACM, FBM, BM, BS, CAR and LNTA on ROE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACM	0.1133	0.0795	1.4245	0.1602
CAR	-0.4488	0.2470	-1.8173	0.0748
FBM	-3.9986	1.2773	-3.1305	0.0028
BM	0.2267	0.0789	2.8723	0.0058
BS	0.0108	0.5655	0.0191	0.9849
LNTA	-5.9500	1.3231	-4.4972	0.0000
C	86.8478	15.7398	5.5177	0.0000
R-squared	0.6683			
Adjusted R-squared	0.5932		Durbin-Watson stat.	1.1686
F-statistic	8.8980			
Prob(F-statistic)	0.0000			

Note: Results are drawn from EViews-12

**Table 3:** Breusch Pagan Test

	Test Hypothesis		
	Cross-Section	Time	Both
Breusch-Pagan	25.0478	0.0001	25.0488
	0.000	0.9745	0.0000

Note: Results are drawn from EViews-12

**H0:** POLS is better than random effect model, select POLS ( $p > 0.05$ ).

**H1:** Random effect model is better than POLS, select RE ( $p < 0.05$ )

The above Table No.3 shows that the p-value of test is less than 0.05 i.e. 0.00 which means null hypothesis is rejected and suggests to go with random effect model.

**Table 4:** Hausman Test

test summary	chi-sq. Statistic	chi-Sq.	d.f.	prob.
cross-section random	57.0515		6	0.000

Note: Results are drawn from EViews-12

**H0:** Random effect model is appropriate than fixed effect model, select RE( $p > 0.050$ )

**H1:** Fixed effect model is appropriate than random effect model, select FE ( $p < 0.05$ ).

The above Table No.4 shows that the p-value of test is less than 0.05 i.e. 0.00 which means null hypothesis is rejected and suggests to go with fixed effect model.

Above table shows the regression analysis between ROE and Independent variables. The value of multiple determination of adjusted R square is 0.5932 which indicates the 59.318% change in ROE is explained by the BS, BM, ACM, FBM, TA and CAR. However, the remaining 40.69% changes in ROE is not explained by independent variables that means remaining 40.69% is explained by other variables, these are not included under the study. The independent variables BM, FBM, and TA have statistically significant on dependent variables ROE whereas BS, ACM, CAR has statistically insignificant at 5% level of significance. Similarly, BS, BM and ACM have positive relationship with ROE whereas FBM, TA and CAR have negative relationship with ROE.

The resulting regression equation:

$$ROE = 86.84 + (0.0107) BS + (0.2266) BM + 0.1133ACM + (-0.3998) FBM + (-5.949979) TA + (-0.4488) CAR$$

As per the above equation, it shows that holding all independent variables as constant, the return on equity (ROE) of commercial banks would be at 86.8478. The regression coefficient of BS, BM, ACM, FBM, CAR, and TA are 0.0107, 0.22667, 0.1133, -3.9986, -5.9499 and -0.4488 respectively. which means one unit increases or decreases in the independent variable results in increases or decreases in the dependent variable regarding to the coefficient. Similarly, one-unit increment in BS lead 0.0107 increments in ROE, One-unit increment in BM lead 0.2266 increment in ROE, one-unit increment in ACM lead 0.113254 increment in ROE and vice-versa. However, one-unit increment in FBM leads to 3.9986-unit decrement in ROE, one unit increments in TA lead 5.9449-unit decrement in ROE and one unit increments in CAR lead 0.4488 unit decrements in ROE and vice-versa.

## Discussion

The main purpose of the study was to examine the impact of the selected independent variables on the profitability of Nepalese commercial banks proposing corporate governance as the main determining factor. Different descriptive and analytical stat were derived to address the intended objective of the research in order to come to the final conclusion of the findings. The study result shows the significant impact of board meeting on the return on equity of the Nepalese commercial banks.

The relationship between Board size and financial performance is found positive but insignificant. The positive relationship between Board size and return on equity indicates that high board size in commercial banks increases the ROE which indicates financial performance. Furthermore, the result indicates that one percent increases in board size increase Return on equity by 0.0108 percent.

Performance of the company is negatively correlated with board size (Yermack, 1996). Similar to this research, Adusei (2011) and Singh and Davidson (2003) [18] concluded that there is a negative correlation between board size and bank performance, i.e., that smaller boards perform better for banks. A smaller board size lowers the risk of free riding and strengthens the accountability of each director, claim Stepanova and Ivantsova (2012). Lehn, Patro, and Zhao (2009) claim that in addition to firm-specific criteria, national and institutional characteristics can also affect the relationship between board size and effectiveness. The

previous study discovered that empirical research on board size and a company's financial performance produced conflicting results. The relationship between female board members and bank performance is found negative but significant. The negative relationship between female board member and bank performance indicates that female member in board decrease the bank performance. Furthermore, the results indicate that one percent increase in female board members decrease return on equity by 3.998620 percent. According to Shrader *et al.* (1997) [16], there is a favorable correlation between the financial success of institutions and the representation of women in managerial roles. Women directors, according to research by Lakhal, Aguir, Lakhal, and Malek (2015) [9], bring a more practical perspective to the monitoring of the business and are thus widely regarded as an integral part of sound corporate governance practices. To sum up, prior empirical results based on the effect of board gender diversity on a firm's financial performance were contradictory and unable to draw any firm conclusions.

The finding of the study shows that Board meeting has positive and statistically significant impact on ROE whereas audit committee meeting has positive and insignificant impact on ROE. The positive and statistically significant results of BM and similar findings were drawn by (Ntim and Osei 2011, Baccouche *et al.*, 2014) state that The more frequent the board meetings, the more up-to-date the directors will be on the institution's most pressing issues, allowing them to respond swiftly to any new, pressing concerns one of the most influential aspects of a board's ability to oversee an organization and ensure its health is the frequency with which its meetings are held.

## Conclusion and implications

The study concluded that in order for the banking industry and the economy as a whole to operate effectively, corporate governance must be effective. By facilitating the transfer of money from savers and depositors to activities that support business and promote economic growth, banks play a significant role in the economy. Also, working together fosters the confidence required for a market economy to operate well. Investor trust in banks is also increased by good corporate governance. The risk of capital leaving an economy is decreased, and the amount of capital flowing into the economy is also increased. According to empirical results, concern about the quality of corporate governance and bank performance is necessary to improve the performance of Nepal's commercial banks. In order to achieve higher and more stable profits, the findings also suggest that shareholders should actively participate in developing excellent corporate governance in the banks they own. It is also crucial to understand how Nepal's central bank has been regulating the banking sector and whether the NRB's policies and instructions are equivalent to those of other central banks. For the banks in Nepal, this study also be useful. In addition, this study can serve as a starting point for future researchers who may want to compare the relationship between the present and the future or continue their research in that direction.

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