"Exploring the role of corporate governance in driving financial performance: An empirical investigation of Nepalese commercial banks"

AUTHORS	Padam Dongol (iD)
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	Sajeeb Kumar Shrestha (iD)
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NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
38	0	23

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Shrestha, 2024

Padam Dongol, Ph.D. Candidate,
Faculty of Business and Accountancy,
Management Department, Lincoln
University College, Malaysia.
(Corresponding author)

Sajeeb Kumar Shrestha, Ph.D.,
Associate Professor, Tribhuvan
University of Nepal; Faculty of Business
and Accountancy, Management
Department, Lincoln University
College, Malaysia.

Padam Dongol (Malaysia), **Sajeeb Kumar Shrestha** (Malaysia)

EXPLORING THE ROLE OF CORPORATE GOVERNANCE IN DRIVING FINANCIAL PERFORMANCE: AN EMPIRICAL INVESTIGATION OF NEPALESE COMMERCIAL BANKS

Abstract

This study delves into the substantial impact of corporate governance practices on a company's financial performance, focusing specifically on Nepalese commercial banks in the Kathmandu Valley. With 419 participants from all 27 «A» grade commercial banks, the study concentrates on employees currently working in these banks, particularly top-level staff such as managers, department heads, and officers. The primary objective is to investigate the role of corporate governance in driving financial performance, using Return on Assets (ROA) and Return on Equity (ROE) as financial performance indicators of banks. The study explores various factors influencing corporate governance's impact, including corporate governance policies, disclosure policies, board size, income diversity, and ethnic diversity. Data collection involves primary data from participants associated with the banks, and the analysis is conducted using the Statistical Package for the Social Sciences (SPSS). Descriptive, correlation, and regression analyses are employed to understand the relationship between corporate governance and financial performance variables. Notably, regular evaluations of the board of directors are found to have a beneficial impact on financial performance. A bank's transparency in sharing performance information exhibits a stronger positive correlation with ROE (R=0.183) compared to ROA (R=0.060), suggesting that ROE is more sensitive to disparities in information availability. Furthermore, the study identifies a negative impact of board size on financial performance, with low-income diversity positively influencing it and board ethnic diversity exerting a negative and statistically significant influence.

Keywords	corporate governance, board size, income diversity, return on assets, return on equity, disclosure policies
JEL Classification	G21, G24, G34

INTRODUCTION

The responsibilities of corporate governance are crucial in influencing the financial performance of businesses, as it establishes the foundation for sustainable growth and the production of long-term value (Bai et al., 2023). The demand for efficient governance procedures becomes more noticeable as organizations handle a progressively dynamic global environment. Corporate governance describes the rules, policies, and processes regulating and controlling organizations (Dewri, 2022). The primary goal of corporate governance is to improve transparency, accountability, and ethical behavior inside a company, providing a working environment favorable for a long time. The relationship between corporate governance and economic growth is complex. Forming a solid board of directors is crucial. Strategic decisions and monitoring fall to the board of directors, the foundation of corporate governance (Mertzanis et al., 2020). A diverse, independent, and ex-

perienced board is more likely to provide effective checks and balances, reducing management errors and maintaining financial policies. Effective governance structures promote sensitive financial management, decreasing cash mismanagement (Gerged, 2021). This is essential for capital allocation optimization and financial performance. Transparent financial reporting, an essential part of effective governance, boosts investor morale and helps attract earnings in favorable conditions.

In recent economic instability, corporate governance and financial performance are linked. Organizations with strong frameworks can handle challenges, react to market changes, and seize new possibilities (Cumming et al., 2021). However, poor leadership may worsen economic downturns, causing financial instability and value deconstruction. Business governance now requires social responsibility. Increasing public expectations make companies consider environmental, social, and governance (ESG) issues in their decision-making (Karwowski & Raulinajtys, 2021). Sustainable and responsible company practices prevent environmental and social hazards and attract a growing number of socially conscious investors, improving financial performance.

In a volatile business environment, corporate governance and financial performance are intricately linked and affect firm success. An expertly managed organization exhibits resilience, adaptability, and ethics, which are essential for long-term financial success. Solid corporate governance practices guide enterprises toward long-term financial success in the 21st century. Corporate governance drives the financial performance of Nepalese commercial banks, and this study examines the variables that influence long-term financial success.

1. LITERATURE REVIEW

In the beginning, the necessity of good corporate governance was highlighted by the need to defend the interest of shareholders. However, as time went on, the focus grew to encompass the protection of other significant interests inside commercial organizations as well (Jizi et al., 2014). The claim that these other interests are just as endangered by badly managed corporate organizations is the basis for the shift toward stakeholder focus. Research has consistently shown that good governance policies positively affect company success. For instance, according to Kolk and Pinske (2010), a solid corporate governance framework increases stakeholder trust and shows that management is serious about running a company responsibly and efficiently. A company's success and its investors' safety are enhanced by well-managed corporations (Spanos, 2005).

According to Uwuigbe (2011), there is a negative relationship between the size of a bank's board and the bank's profitability, but a positive relationship between its financial performance and directors' interest and degree of corporate transparency. Good corporate governance involves maximizing long-term shareholder profit while being ethical

and transparent. Corporate governance protects shareholder interests and promotes transparency, making a firm more profitable (Garcia et al., 2016; Govender & Hassen-Bootha, 2022). The size of the board emerges as a crucial characteristic of the board of directors, underscoring its importance within the governance framework. (Tibiletti et al., 2020). Abdul Gafoor et al. (2018) revealed that 6-9-person boards for Indian banks perform better. Size influences board supervision and advice to management and bank decision-making. Board sizes beyond 9 do not affect corporate success. Baallay et al. (2017) state that corporate governance principles did not statistically harm Saudi stock exchange-listed firms' financial performance. Mukhtaruddin et al. (2019) examined how economic accomplishment modulates effective corporate governance, social responsibility, and corporate wealth. The results found no significant beneficial impact of effective corporate governance on corporate revenue.

The size and independence of the corporate board affected the performance of Bangladeshi banks and found that governance had a weak effect on the returns on equity and assets (Kutubi, 2001). Diverse ownership types and combinations may affect decision-making, tactics, policies, and in-

formation sharing, raising organizations' legitimacy (Haniffa & Cooke, 2005; Subramanian et al., 2023). The board of directors, an important part of corporate governance, ensures that management's goals meet stakeholders' goals (Pasko et al., 2022; Zaman et al., 2020). The quantity of directors forming the board is suggested to directly affect its functionality and overall corporate efficiency (Ali & Ayoko, 2020; Alrowwad et al., 2022; Raboshuk et al., 2023). A larger board is assumed to have a more extensive pool of knowledge, improving its capacity to make crucial and prompt decisions independently. (Ali & Ayoko, 2020; Tibiletti et al., 2020). Alabdullah and Naseer (2023) explored how board size, business size, and ageing affect Dubai-listed enterprises' finances. According to the study, board size did not affect the earnings of the company.

Corporate governance methods like board independence, shareholder activism, and fair disclosure can reduce management entrenchment. Effective governance systems can check managerial activities that conflict with shareholder interests (Hodgson, 2015). Buallay (2019) analyzed governance and bank ROA, ROE, and TQ. Corporate governance concepts were autonomous, but ROA, ROE, and TQ were dependent. The results show that corporate governance has a great impact on ROE and ROA. The corporate governance substantially affected TQ. The performance of Nepalese commercial banks was analyzed by Bhattarai (2017). Auditors and independent directors boost financial efficiency at Nepalese commercial banks, but board size harms.

The impact of ethnic diversity on the financial performance of Nigerian companies was examined over a 6-year period from 2012 to 2017. Tobin's Q and Return on Assets (ROA) measure the financial performance. Ethnic diversity, board size, and leverage are addressed in the Nigerian context (Kabara & Modibbo, 2020). Ethnic diversity has a negative insignificant impact on performance. Due to the directors' diverse ethnic, language, and cultural backgrounds, moderate ethnically diverse boards may have better monitoring effectiveness due to their wide range of perspectives (Gul et al., 2016). Ethnic diversity has no impact on firm performance for the firm (Amin & Nor, 2019). Income diversification hurt

Vietnamese commercial banks from 2007 to 2017. Revenue diversification boosts bank performance. Bank diversification benefits state-owned and foreign banks but disadvantages domestic banks. Diversification also benefits experienced banks (Luu et al., 2020).

Wang and Cao (2022) explored how corporate governance affects Taiwanese financial technology and profitability. The study indicated that banks with more corporate financiers, independent executives, directors, median director education, and financial background directors offer superior economic services. Gafoor, Mariappan, and Thyagarajan (2018) revealed that 6-9-person boards for Indian banks perform better. Size influences board supervision and advice to management and bank decision-making. Board sizes beyond 9 do not affect corporate success. Majeed et al. (2020) compared Pakistani and Chinese commercial banks' board size and directors' makeup to financial performance. Smaller boards of directors do not influence Pakistani commercial banks' financial performance, while they do favorably benefit Chinese banks. Bektas and Kaymak (2009) found a negative correlation between board size and bank profitability by working under the BIST data set using 12 banks. Dogan and Yildiz (2013) uncover the impact of the size of the board on a firm's financial performance. Al-Matari et al. (2014b) identified corporate governance factors that affect financial performance. Positive but negligible relationships exist between board size, meeting frequency, CEO tenure, board turnover, and legal counsel and ROA. Chilumuri and MBA (2013) analyzed the State Bank of India's corporate governance. To achieve quality, transparency, stakeholder value, and wealth, the State Bank of India's corporate governance might strengthen investment strategies, internal control systems, credit risk management, customer service, and automation.

Following the results and insights obtained from earlier research efforts, hypotheses were constructed by drawing upon those findings and insights.

H_1:   *Regular evaluations of the board of directors' (BoD) financial performance significantly affect organizational effectiveness.*

H_2:   *The bank provides equal utilization of information about its performance to both shareholders and investment analysts.*

H_3:   *Firms with larger board sizes have a positive relationship with their financial performance.*

H_4:   *The level of board ethnic diversity within a group is positively correlated with the financial performance of banks.*

H_5:   *Diversity income plays a less important role in a bank's performance.*

2. METHODOLOGY

The utilization of research approaches helps in the formulation of the findings and objectives and the presentation of the outcomes from the data gathered during the study period. The major objective of this research technique is to direct the researcher at every stage to achieve the study's principal objectives. In this study, primary data collection is carried out. This study employed first-hand information to look into the issue as well as research topics, encompassing 419 participants from all 27 "A" grade commercial banks and focusing on the current workforce of these institutions. Specifically, it focuses on top-level personnel, including managers, department heads, and officers. The sample included 312 people aged 20-29, 88 people aged 30-39, 16 people aged 40-49, and three people aged 50 and more. This study used questionnaires with a Likert rating scale from 5 (strongly agree) to 4 (agree), 3 (neutral), 2 (disagree), and 1 (strongly disagree). This study uses quantitative and descriptive methods to analyze financial performance and corporate governance. The demographic profile of the respondents of the study is presented in Table 1.

Table 1. Demographic profile of respondents

Category	Variables	Respondents	%
Gender	Male	224	53.46
	Female	195	46.54
Age	20-29	312	74.46
	30-39	88	21.00
	40-49	16	3.82
	50 and above	3	0.72

Category	Variables	Respondents	%
Family Status	Medium	407	97.14
	High	12	2.86
Education Level	Masters	242	57.76
	Bachelor	169	40.33
	10th or 12th	8	1.91
Total Respondents		419	53.46

This study examined two models. The mathematical models for the study are as follows:

Model 1

$$ROA = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon_i. \quad (1)$$

Model 2

$$ROE = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon_i. \quad (2)$$

where *ROA* – Return on Assets, *ROE* – Return on Equity, X_1 – Board of directors, X_2 – Disclosure Policies, X_3 – Board sizes, X_4 – Board ethnic diversity, X_5 – Income diversity, β_0 – Constant, β_1, β_2, β_3, β_4, β_5 – Coefficient of Independent Variables, and ε_i – Error term.

3. RESULTS

Table 2 summarizes responses from 419 participants on a 1 to 5 scale, revealing central tendencies and variabilities. Notably, "The Board of Directors (BOD) has regular meetings" scores a mean of 3.69, suggesting moderate agreement with variability (std. dev. 1.004). Meanwhile, "The annual reports clearly described" boasts a high mean of 4.24, indicating strong consensus with low variability (std. dev. 0.748). "Board size is better for improving the bank's performance" leans towards agreement (mean 3.48, std. dev. 0.889). Ethnic diversity's impact on bank performance scores a mean of 3.13, showing moderate agreement with variability (std. dev. 1.005). "Income diversity plays a less important role in the bank's performance," with a mean of 2.79, indicating lower agreement and higher variability (std. dev. 1.036). "Return on assets" has a mean of 3.90, indicating moderate understanding with variability (std. dev. 0.840). Similarly, "Return on equity" scores a mean of 3.89, suggesting a similar understanding with variability (std. dev. 0.860).

Table 2. Descriptive statistics of corporate governance and financial performance

Statements	Minimum	Maximum	Mean	Std. Deviation
The board of directors has regular meetings	1	5	3.69	1.004
The annual reports clearly described the company's activities	1	5	4.24	0.748
Board size is better for improving the bank's performance	1	5	3.48	0.889
Income diversity plays a less important role in a bank's performance	1	5	3.13	1.005
Ethnic diversity affects the performance of commercial banks	1	5	2.79	1.036
Return on assets is a bank's profit from invested funds	1	5	3.90	0.840
Return on equity measures a company's profitability	1	5	3.89	0.860
N	419			

Table 3. Model summary – ROA

Model	R	R^2	Modified R^2	Std. Error
1	.120	.015	.011	.516

Table 3 shows the model summary of the dependent variable of ROA, which shows a relatively low R Square of .015. This indicates that the independent variables account for 1.5% of the variance in ROA. With an adjusted R-squared of just 0.011, taking the complexity of the model into account provides an insignificant increase. The estimated standard error between observed and expected ROA values is .516.

Table 4. ANOVA

	Model	$Mean^2$	F	Sum of Squares	Sig.
	Regression	1.079	4.049	5.397	0.001
1	Residual	.267		366.556	
	Total			371.952	

Table 4 demonstrates the significant results from an analysis of variance (ANOVA) performed on the dependent variable, ROA, and the explanatory parameters. With an F-statistic of 4.049 ($p = 0.001$), the regression model shows a statistically significant impact, highlighting the significance of the factors investigated on the Bank's profitability.

Table 5 represents the findings of an investigation into the correlation between corporate governance elements and ROA in Nepalese commercial banks. A negative effect on return on assets has been observed for regularly scheduled board of director meetings, suggesting impending difficulties. Annual report clarity has a good effect on ROA, but board size has an insignificant impact. Moreover, board ethnic diversity emerges as a statistically significant factor positively affecting bank performance, indicating its relevance in the context of financial outcomes. In contrast, the income diversity group has an insignificant impact on ROA.

Table 6. Model summary – ROE

Model	R	R^2	Modified R^2	Std. Error
1	.097[a]	.009	.006	.512

Table 6 demonstrates the model summary of the dependent variable ROE. A low R-squared of 0.009 indicates that only about 0.9% of the total variation in ROE can be described by the model's independent variables. Due to the complexity of the factors determining ROE, the adjusted R-squared value is only 0.006, indicating that the model has insufficient descriptive ability.

Table 5. Coefficients of ROA

Models	Unstandardized Coefficient		Standardized Coefficient	t	Sig.	Correlations		
	B	Std. Error	Beta ($\hat{a}$)			Zero-order	Partial	Part
(Constant)	2.221	.133		16.679	<.001			
The board of directors has regular meetings	−.054	.021	−.068	−2.522	.012	−.066	−.068	−.068
Annual reports clearly describe the company's activities	.044	.025	.047	1.767	.077	.047	.048	.047
Board size is better for improving the bank's performance	.002	.018	.004	.131	.896	.007	.004	.003
Income diversity plays a less important role in a bank's performance	.027	.016	.049	1.745	.081	.068	.047	.047
Board ethnic diversity group affects the performance of commercial banks	.034	.017	.058	2.071	.039	.076	.056	.055

Table 7. ANOVA

Model		df	Mean²	F	Sum of Squares	Sig.
1	Regression	5	.685	2.611	3.427	.023
	Residual	1375	.262		360.911	
	Total	1380			364.337	

Table 8. Coefficients of ROE

Models	Unstandardized Coefficient		Standardized Coefficient	t	Sig.	Correlation		
	B	Std. Error	β			Zero-order	Partial	Part
(Constant)	2.422	.132		18.331	<.001			
The board of directors has regular meetings	.053	.021	.067	2.491	.013	.065	.067	.067
Annual reports clearly describe the company's activities	−.028	.024	−.030	−1.129	.259	−.028	−.030	−.030
Board size is better for improving the bank's performance	−.001	.018	−.002	−.066	.947	−.003	−.002	−.002
Income diversity plays a less important role in a bank's performance	−.035	.016	−.064	−2.265	.024	−.052	−.061	−.061
Board ethnic diversity group affects the performance of commercial banks	.024	.016	.042	1.478	.140	.020	.040	.040

Table 7 demonstrates the outcomes of an ANOVA model are statistically significant (p = 0.023), suggesting that the examined parameters collectively have a notable impact. The F-statistic (2.611) assesses the overall significance of the regression model, and the "Sum of Squares" values provide insights into the variability explained by the model and the unexplained variability.

Table 8 shows the research findings provide critical insights into the relationship between corporate governance characteristics and ROE. Notably, regular board meetings and income diversity have favorable associations with ROE, indicating their potential impact on increasing a commercial bank's profitability. These empirical coefficients add important modifications to the examination of financial performance factors. However, the board size, board ethnic diversity, and annual reports clearly described the company's activities as having an insignificant effect on the ROE.

3.1. Hypothesis testing

H_1:   Regular evaluations of the Board of Directors' (BoD) financial performance significantly affect organizational effectiveness.

Table 9. Model summary (H_1)

H_1	R	R²	Modified R²	Std. Error
ROA	.083	.007	.006	.510
ROE	.079	.006	.006	.512

Table 9 illustrates the model summary of regular evaluations of the board of directors' financial performance significant impact on organizational effectiveness. Analyzing hypotheses, the R-squared values of 0.007 and 0.006, respectively, for ROA and ROE indicate that the evaluation practice only partially describes the variance in these profitability metrics.

Table 10 shows that both dependent variables, return on assets (ROA) and return on equity (ROE), are statistically significant ($p < 0.05$), suggest-

Table 10. ANOVA (H_1)

H_1	Parameters	Mean²	df	F	Sum of Squares	Sig.
ROA	Regression	2.494	1	9.583	2.494	.002
	Residual	.260	1379		358.845	
	Total		1380		361.338	
ROE	Regression	2.289	1	8.717	2.289	.003
	Residual	.263	1379		362.049	
	Total		1380		364.337	

Table 11. Coefficients (H_1)

H_1	Unstandardized Coefficient		Standardized Coefficient	t	Sig
	B	Error	β		
ROA	−.055	.018	−.083	−3.096	.002
	2.622	.058		44.944	<.001
ROE	−.053	.018	−.079	−2.952	.003
	2.642	.059		45.089	<.001

ing that the model explains a significant portion of the variability in these financial performance indicators.

Table 11 outlines the regression analysis results investigating the relationship between certain variables and financial performance indicators, specifically Return on Assets (ROA) and Return on Equity (ROE). The un-standardized coefficients –0.055 for ROA and –0.053 for ROE represent the estimated impact of the independent variable on the respective dependent variable. The "t" values of –3.096 for ROA and –2.952 for ROE assess the significance of these effects. The associated p-values (Sig.) are both less than 0.001, demonstrating that these impacts are negatively statistically significant.

H_2: *The bank provides equal utilization of information about its performance to both shareholders and investment analysts.*

Table 12. Model summary (H_2)

H_2	R	R^2	Modified R^2	Std. Error
ROA	.060	.004	.003	.511
ROE	.183	.033	.033	.505

Table 12 displays the summary results of the model and shows how ROA and ROE are related when shareholders and investment analysts have access to the same data. There is a positive correlation between information accessibility and ROE ($R = 0.183$) compared to ROA ($R = 0.060$), indicating that ROE is more sensitive to disparities in information availability. The R-squared values for both models are low, indicating that only a small portion of the variation in the "dependent variables can be attributed to the independent variable".

Table 13 demonstrates ANOVA results for both ROE and ROA. The low p-values of 0.026 and 0.001 for ROA and ROE show that the regression models have high explanatory power, demonstrating that the bank's provision of equal information access significantly affects these financial performance indicators.

Table 14 presents the results of regression analysis assessing the impact of specific variables on financial performance indicators, specifically Return on Assets (ROA) and Return on Equity (ROE). The unstandardized coefficients of ROA (–0.060) and ROE (–0.183) indicate the estimated effect of

Table 13. ANOVA (H_2)

H_2	Parameters	Mean²	df	F	Sum of Squares	Sig.
ROA	Regression	1.298	1	4.970	1.298	.026
	Residual	.261	1379		360.040	
	Total		1380		361.338	
ROE	Regression	12.148	1	47.565	12.148	<.001
	Residual	.255	1379		352.190	
	Total		1380		364.337	

Table 14. Coefficients (H_2)

H_2	Unstandardized Coefficient		Standardized Coefficient	t	Sig
	B	Error	β		
ROA	−.049	.022	−.060	−2.229	.026
	2.615	.077		34.008	<.001
ROE	−.150	.022	−.183	−6.897	<.001
	2.990	.076		39.315	<.001

the independent variable on the respective dependent variable. The associated p-values (Sig.) are less than 0.001, indicating that these impacts are statistically significant. In essence, the variables negatively influence both ROA and ROE, and these effects are statistically meaningful with a high level of confidence, suggesting a substantial impact on the financial performance indicators.

H_3: *Firms with board sizes have a positive relationship with their financial performance.*

Table 15. Model summary (H_3)

H_3	R	R²	Modified R²	Std. Error
ROA	.060	.004	.003	.511
ROE	.066	.004	.004	.513

Table 15 demonstrates how board size affects a company's financial success as assessed by ROA and ROE. Here, board size explains only a small percentage of the variance in ROA and ROE (R-squared values of 0.004); other factors may have a larger impact on financial performance.

Table 16 illustrates the ANOVA results of both ROA and ROE. The regression is statistically significant (p < 0.05), suggesting that the model explains a significant portion of the variability in these financial performance indicators. The "Sum of Squares" values for regression and residuals, along with their corresponding degrees of freedom, contribute to calculating the F-statistic, which is used to assess the overall significance of the regression model.

Table 17 demonstrates the regression coefficients for two financial performance indicators, Return on Assets (ROA) and Return on Equity (ROE). For ROA, the unstandardized coefficient is –0.038, indicating a negative relationship. The t-statistic (–2.232) is significant at p = 0.026. Similarly, for ROE, the unstandardized coefficient is –0.043, indicating a negative relationship, and the t-statistic (–2.473) is significant at p = 0.014. These results suggest that the examined parameters significantly negatively influence ROA and ROE.

H_4: *The board ethnic diversity within a group is positively correlated with the financial performance of banks.*

Table 18. Model summary (H_4)

H4	R	R²	Modified R²	Std. Error
ROA	.061	.004	.003	.511
ROE	.085	.007	.007	.512

Table 18 shows the model summary of the board ethnic diversity level within a group with the financial performance of the commercial banks. There is only an insignificant correlation between higher levels of board ethnic diversity and higher ROA and ROE. The low R-squared values (.004 for ROA and .007 for ROE) show that board ethnic diversity has a minimal impact on financial performance since they support the notion that only a small percentage of the variation in bank performance can be attributable to ethnic diversity.

Table 16. ANOVA (H_3)

H_3	Parameters	Mean²	F	df	Sum of Squares	Sig.
ROA	Regression	1.300	4.981	1	1.300	.026
	Residual	.261		1379	360.038	
	Total			1380	361.338	
ROE	Regression	1.609	6.116	1	1.609	.014
	Residual	.263		1379	362.729	
	Total			1380	364.337	

Table 17. Coefficients (H_3)

H_3	Unstandardized Coefficient		Standardized Coefficient	t	Sig
	B	Error	β		
ROA	−.038	.017	−.060	−2.232	.026
	2.554	.050		51.233	<.001
ROE	−.043	.017	−.066	−2.473	.014
	2.593	.050		51.832	<.001

Table 19. ANOVA (H_4)

H_4	Parameters	Mean²	df	F	Sum of Squares	Sig.
ROA	Regression	1.349	1	5.168	1.349	.023
	Residual	.261	1379		359.989	
	Total		1380		361.338	
ROE	Regression	2.654	1	10.118	2.654	.002
	Residual	.262	1379		361.684	
	Total		1380		364.337	

Table 20. Coefficients (H_4)

H_4	Unstandardized Coefficient		Standardized Coefficients	t	Sig.
	B	Std. Error	β		
ROA	−.039	.017	−.061	−2.273	.023
	2.569	.055		46.292	<.001
ROE	−.055	.017	−.085	−3.181	.002
	2.646	.056		47.563	<.001

Table 19 shows the regression models for both ROA and ROE are statistically significant ($p < 0.05$), indicating that the examined parameters have a notable impact on these financial performance indicators. The F-statistics (5.168 for ROA and 10.118 for ROE) are used to assess the overall significance of the regression models.

Table 20 displays the regression analysis results, providing insights into the relationship between specific variables and financial performance indicators, specifically Return on Assets (ROA) and Return on Equity (ROE). For both ROA and ROE, the unstandardized coefficient represents the estimated impact of the independent variable on the respective dependent variable. In this case, the unstandardized coefficients are –0.039 for ROA and –0.055 for ROE. The "t" values of –2.273 for ROA and –3.181 for ROE assess the significance of the impact, and the corresponding p-values (Sig.) are both less than 0.05, indicating that these impacts are negatively statistically significant.

H_5: *Income diversity plays a less important role in a bank's performance.*

Table 21. Model summary (H_5)

H_5	R	R²	Modified R²	Std. Error
ROA	.062	.004	.003	.511
ROE	.059	.003	.003	.513

Table 21 displays the outcomes of the model summary and shows that the R-squared values for the influence of income diversity on ROA and ROE are only 0.004 and 0.003, respectively. Based on these findings, this diversity element appears to contribute significantly to the examined context in influencing bank performance.

Table 22 shows both regression models for ROA and ROE are statistically significant ($p < 0.05$), suggesting that the examined parameters significantly influence these financial performance indicators.

Table 23 presents regression coefficients for the variables associated with Return on Assets (ROA) and Return on Equity (ROE) in a statistical model. For both ROA and ROE, the unstandardized coefficient is 0.054, signifying the estimated impact of the independent variable on the respective depen-

Table 22. ANOVA (H_5)

H_5	Parameters	Mean²	df	F	Sum of Squares	Sig.
ROA	Regression	1.390	1	5.324	1.390	.021
	Residual	.261	1379		359.949	
	Total		1380		361.338	
ROE	Regression	1.262	1	4.794	1.262	.029
	Residual	.263	1379		363.075	
	Total		1380		364.337	

Table 23. Coefficients (H_5)

H_5	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std. Error	β		
ROA	.054	.023	.062	2.307	.021
	2.325	.054		42.801	<.001
ROE	.054	.023	.062	2.307	.029
	2.325	.054		42.801	<.001

dent variable. The "t" value of 2.307 assesses the significance of the impact, and the corresponding p-value (Sig.) is 0.021 for ROA and 0.029 for ROE, both less than 0.05, suggesting that the impact is statistically significant.

4. DISCUSSION

The descriptive statistics for several areas of the respondents' perceptions are presented in Table 2. The findings revealed varied opinions on board meeting frequency, with a mean score of 3.69 and a standard deviation of 1.004. Respondents widely agreed on the clarity of annual reports, with an average rating of 4.24 and a low standard deviation of 0.748. Views on board size's importance for bank performance were diverse, with a standard deviation of 0.889 and an average rating of 3.48. Income diversity's impact on bank performance was perceived as less significant, with a mean score of 3.13 and a standard deviation of 1.005. Ethnic diversity's significance saw varied opinions, with a mean rating of 2.79 and a standard deviation of 1.036. Additionally, bank profitability indicators, ROA and ROE, averaged 3.90 and 3.89, respectively, with lower standard deviations indicating less diversity in opinions.

The regression analysis result is presented in Table 5 and Table 8 to evaluate the effect of the independent variables on ROA and ROE (proxies as financial performance). The beta coefficient for regular board meetings shows a negative value of −0.054, which suggests a 1 percent addition to regular board meetings will cause a 0.054 percent decrease in ROA. The negative result indicates that an increase in regular board meetings can be less productive in the value of assets. This result is significant (p-value < 0.05). Also, a beta coefficient of −0.053 for regular board meetings indicates that ROE will increase by 0.053% for every 1% increase to these meetings. The encouraging outcome suggests that the ROE's financial performance may be improved by holding board meet-

ings more frequently. The finding is statistically significant (p-value < 0.05).

The result further shows a significant positive effect of annual reports describing the company's activities on ROA at a 10 percent level of significance, with a coefficient of 0.044. This suggests that a unit increase in annual reports describing the company's activities will increase ROA by 0.044 units. Also, at the 5% level of significance, the analysis reveals that the annual reports describing the company's operations had a negligible negative influence on ROE (coefficient = −0.028). For every unit increase in the number of yearly reports detailing the company's activity, the return on equity (ROE) drops by 0.028 units. The results are in agreement with what Chilumuri and MBA (2013) have found about how disclosure regulations and corporate governance interact.

The coefficient for board size shows a negative value of 0.002 indicating that a unit increase in board size leads to an increase in bank performance (proxies as return on assets) by 0.002 units. This result implies that the size of the board supports the performance of the bank by a very low amount. However, since the probability value is greater than 5 percent (p-value > 0.05), this observation is not significant. Similarly, a negative value of −0.001 for the board size coefficient indicates that there is a 0.001 unit drop in bank performance (representing return on equity) for every unit increase in board size. Based on these findings, it appears that larger boards do not contribute to improved bank performance. However, this finding is not statistically significant because the probability value is more than 5% (p-value > 0.05). Here, the study's findings corroborate those of Bektas and Kaymak (2009) and Al-Matari et al. (2014b) regarding the effects of board size.

For income diversity, the beta coefficient of .027 indicates a positive effect of income diversity on ROA. Specifically, it shows that as income diversity increases by 1 percent, ROA is expected to increase by 0.027

percent. With a p-value of 0.081, this result is significant at 10 percent. Income diversity also has a negative impact on return on equity (ROE), as shown by the beta value of –0.035. This demonstrates that return on equity (ROE) is anticipated to decline by 0.035 percent for every 1% rise in income diversity. This finding is statistically significant at a 5% level (p = .024). Findings from this study corroborate those from Luu et al. (2020) on the beneficial effects of income variety. On the other hand, the study confirms what Luu et al. (2020) found: that income diversity positively impacts financial performance. This shows that the current study and Luu's previous work on the topic are converging.

The result for the board ethnic diversity group also shows a beta coefficient of 0.034, indicating a positive effect of the Board ethnic diversity group on ROA. From the result, an increase of 1 percent in the Board ethnic diversity group generates about 0.034 percent in ROA. With a p-value of 0.039, this result is significant at 5 percent. The board ethnic diversity group also had a favorable influence on return on equity (ROE), as shown by the beta coefficient of 0.024. The results show that there is a 0.024 percent rise in ROE for every 1% increase in the ethnic diversity group of the Board. This finding is not statistically significant at the 5% level (p = 0.140). These results are consistent with those of Amin and Nor (2019).

CONCLUSION

This paper examines the role of corporate governance in driving the financial performance of commercial banks in Nepal. This study used 419 current working employees of commercial banks of different designations. The study highlighted a gender distribution of 53.5% male and 46.5% female, while a substantial proportion claimed a medium family status. ROA and ROE are two dependent variables used to measure the financial performance of banks. Because the study used self-reported data and a cross-sectional approach, there are some possible sources of bias that could make it harder to find strong and generalizable results.

The study further shows that regular director meetings have been found to have a negative effect on return on assets, which might indicate that there are upcoming challenges. There is a positive correlation between annual reports and ROA, but there is little or no correlation between board size and ROA. Also, regarding financial results, board ethnic diversity is relevant as it is a statistically significant component that positively impacts bank performance. The income diversity group, on the other hand, does not significantly affect ROA. Particularly, a commercial bank's profitability may be enhanced by instituting frequent board meetings and promoting revenue diversification, both of which are positively associated with return on equity. When looking at financial performance aspects, these empirical coefficients make significant changes. Return on equity is unaffected by board size, ethnic diversity on the board, or the annual reports detailing a company's operations.

The study concludes that effective governance has a key influence on enhanced bank profitability and suggests that proper governance systems should be maintained to guarantee that banks are managed economically, based on the findings above. Moreover, considering contextual variations and delving into the evolving dynamics of governance processes over time could offer valuable insights, contributing to a more comprehensive understanding of the intricate relationship between corporate governance practices and long-term organizational performance.

AUTHOR CONTRIBUTIONS

Conceptualization: Sajeeb Kumar Shrestha.
Data curation: Sajeeb Kumar Shrestha.
Formal analysis: Padam Dongol.
Funding acquisition: Padam Dongol.

Investigation: Padam Dongol.
Methodology: Sajeeb Kumar Shrestha.
Project administration: Padam Dongol.
Resources: Sajeeb Kumar Shrestha.
Software: Padam Dongol.
Supervision: Padam Dongol.
Validation: Sajeeb Kumar Shrestha.
Visualization: Sajeeb Kumar Shrestha.
Writing – original draft: Padam Dongol.
Writing – review & editing: Sajeeb Kumar Shrestha.

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