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Impact of Board Characteristics on Performance of Nepalese Commercial Banks

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Abstract

This study examines the board characteristics affects on Nepalese commercial banks performance. The dependent variables are return on equity and return on assets, while the independent variables are total assets, board size, bank age, founder directors, CEO age, and independent directors. The secondary data used in this study came from 17 commercial banks and included 85 observations from 2019–20 to 2023–2024. The information was gathered from Nepal Rastra Bank's Banking and Financial Statistics as well as the annual reports of a few chosen commercial banks. The significance and importance of board characteristics and firm performance in Nepalese commercial banks are tested using estimated regression models.

The results indicates a negative correlation between return on assets and board size. It suggests that a larger board would result in a lower return on assets. On the other hand, return on assets and CEO age are positively correlated. It demonstrates that a higher return on assets is correlated with an older CEO. Similarly, there is a negative correlation between return on assets and founder and independent directors. It demonstrates that the return on assets would decrease with the number of independent directors and founder directors. In a similar vein, the return on assets has a positive relationship with total assets and bank age. It suggests that a rise in total assets and bank age results in a rise in return on assets. However, board size is adversely correlated with return on equity. It suggests that a larger board would result in a lower return on equity. In a similar vein, return on equity and CEO age are positively correlated. It demonstrates that the return on equity would increase with the age of the CEO. Additionally, the regression results indicate that the beta coefficients for total assets and CEO age are positive. At the 5 percent level, the coefficients are significant only for independent directors and board

size.

Keywords: board size, CEO age, independent directors, founder directors, total assets and bank age

Introduction

Corporate governance is the set of policies, procedures, and guidelines that govern how an organization is run. A company's ability to achieve its business goals depends on its corporate governance (Mallin, 2013). According to Manganelli & Klein (1994), the establishment's external pressure is what helps them maintain and improve their competitive positions. Therefore, the board's role is rather intimidating as it aims to fulfill various and taxing responsibilities. The pool of social capital that is used to carry out governance performance is represented inclusively by board capabilities, according to Carpenter & Westphal (2001). Additionally, the study made the case that the board ought to be recognized as a platoon of individuals who pool their skills and abilities to represent the social capital pool for their organization that has helped carry out the governance role.

According to Rodrik (2002), republics are better equipped to handle unfavorable shocks and generate more stable growth paths. According to Rivera-Batiz (2002), the high caliber of institutions under a republic also has a positive impact on total factor productivity. Consequently, the board's independence, size, and makeup all affect how well it performs its monitoring role. Furthermore, anodizing the composition and structure of commercial boards as a component of the best commercial government medium has received little attention recently (Hermalin & Weisbach, 1997). This new type of paper can be mainly theoretical and take advantage of the strategic game-playing between the board of directors and operations in the context of inaccurate information. Additionally, there are empirical and theoretical efforts to Analyze the trade between the commercial governance mechanisms (Hirshleifer & Thakor, 1994).

By sharing moxie, knowledge, and experience in the decision-making process, a larger board size can improve firm performance, according to the Coffers Reliance Proposition (Jeffrey & Genald, 2003). To improve performance, the suggested companies' boards ought to be larger. However, Olayinka (2010) contended that agency problems arise as

board size grows due to the challenges the board faces in coordinating, communicating, and forming opinions. Olayinka (2010) established a positive correlation between board size and performance as determined by ROCE (return on capital employed) and ROE (return on equity). The results in Malaysia are not entirely consistent. Although Abidin & All (2009) established a good relationship, Nazli (2010) failed to discover any meaningful connections. between bank performance and board size.

According to Steven (2010), a director's age has an impact on decision-making performance, which in turn influences a company's expansion. Taylor (1975) came to the conclusion that older decision makers take longer to make decisions because they must look for additional information and can therefore analyze it more carefully than younger decision makers. Even so, older decision makers lack confidence in their choices and are more likely to change their minds if they believe those choices will harm the companies. They contend that elderly directors' low levels of physical and internal energy will result in diminished assaying strategy capabilities, which may enhance the performance of the business. Similarly, younger directors tend to be more aggressive (Child, 1974).

The promoter is the person in charge of the company's initial expansion and development (Belen & All, 2006). The author's studies are typically about family-run businesses. Child (1974) established that "an atmosphere of love for the business and a sense of commitment" can be created by family values, such as trust and altruism. Similarly, Wiwattanakantang (2001) established a correlation between advanced performance in Thailand and family-controlled businesses and controlling shareholders.

A key role in icing business performance is played by administrative directors. There are conflicting problems with the addition of superintendent (outside) directors to the duck. On the one hand, their addition is crucial and could result in a more successful decision-making process (Fama & Jensen, 1983). By providing guidance and expertise on day-to-day operations, administrative directors can assist the CEO in optimizing the company's worth. However, their inclusion raises questions about their independence in evaluating directing performance. Abdullah (2004) established that each director's position of authority determines how the request for the addition of inside directors to the BOD is perceived. Independent directors continue to be crucial in overseeing operations and improving board efficacy. They are expected to increase the diversity of skills and moxie

of the directors and contribute independent viewpoints to the board. Abidin et al. (2009) and Abdullah (2004), claimed that independent non-executive directors play a significant role in reducing oversight duties, which improves business performance.

Pradhan (2014) established the substantial influence of commercial governance on the performance of marketable banks in Nepal. The study also established that return on means is positively and significantly impacted by board size and total means. Additionally, Sharma et al. (2014) established that board size is a positive indicator of ROA. According to Bhandari et al. (2016), commercial governance has a major effect on ROE in Nepali insurance companies. Board size has a significant negative relationship with ROE, according to (Guragain et al., 2016).

According to Silwal (2011), commercial governance significantly affects The performance of the establishment was grounded. Lama (2015) found that commercial governance had a negligible effect on both ROA and ROE in fiscal institutions that were highly marketable banks. Additionally, the companies' ROA and ROE are significantly impacted by commercial governance practices.

The discussion that follows shows that the results of colorful studies about the firm performance and board characteristics of Nepalese marketable banks lack depth. Therefore, the purpose of this study is to investigate how board composition affects the establishment performance of marketable banks in Nepal. It specifically looks at how the performance of Nepalese marketable banks is affected by board size, CEO age, independent directors, author directors, bank age, and total means.

The remainder of this study is organized as follows section two describes the sample, data and methodology. Section three presents the empirical results and final section draws conclusion and discusses the counteraccusations of the study findings.

Methodological aspects

This study is based on the secondary data which were gathered from 17 commercial banks in Nepal from 2019/20 to 2023/24, leading to a total of 85 observations. The main sources of data include annual reports of selected commercial banks. Table 1 shows the number of commercial banks selected for the study along with the study period and number of observations.

Table 1: Number of commercial banks selected for the study along with study period and number of observation

S.N	Name of Bank	Study year	Observation
1	Agricultural Development Bank Limited	2019/20 to 2023/24	5
2	Global IME Bank Limited	2019/20 to 2023/24	5
3	Nepal Bank Limited	2019/20 to 2023/24	5
4	Everest Bank Limited	2019/20 to 2023/24	5
5	Himalayan Bank Limited	2019/20 to 2023/24	5
6	Kumari Bank Limited	2019/20 to 2023/24	5
7	Laxmi Bank Limited	2019/20 to 2023/24	5
8	Machhapuchhre Bank Limited	2019/20 to 2023/24	5
9	Nabil Bank Limited	2019/20 to 2023/24	5
10	Nepal Investment Mega Bank Limited	2019/20 to 2023/24	5
11	NIC Asia Bank Limited	2019/20 to 2023/24	5
12	NMB Bank Limited	2019/20 to 2023/24	5
13	Standard chartered Bank Limited	2019/20 to 2023/24	5
14	RastriyaBanijya Bank Limited	2019/20 to 2023/24	5
15	Sanima Bank Limited	2019/20 to 2023/24	5
16	SBI Bank Limited	2019/20 to 2023/24	5
17	Prabhu Bank Limited	2019/20 to 2023/24	5
	Total number of observations		85

Thus, the study is based on 85 observations.

The model

The models used in this study assumes that return on assets (ROA) and return on equity(ROE) dependent on board size, CEO age, independent director, founder directors, bank age and total assets. Therefore, the model takes the following forms:

$ROA = \alpha_0 + \beta_1 BS + \beta_2 CA + \beta_3 ID + \beta_4 FD + \beta_5 BA + \beta_6 TA + e$

$ROE = \alpha_0 + \beta_1 BS + \beta_2 CA + \beta_3 ID + \beta_4 FD + \beta_5 BA + \beta_6 TA + e$

Where,

ROA = Return on assets, defined as net profit to total assets, in percentage.

ROE = Return on equity, defined as net profit to total capital, in percentage.
BS = Board size, defined as total number of directors on the board.
CA = CEO age, in years.
ID = Independent director, number of independent directors on the board.
FD = Founder directors, number of independent directors on the board.
BA = Bank age, in years.
TA = Total assets, in millions of Rupees.

Board size

A member of the board of directors or a board committee makes up the board size. In the study, the board size is equivalent to the total number of financial institution directors. Michael (2009) asserts that the firm's performance is negatively impacted by the size of the board. Jensen (1983) found that small boards are more effective than large boards. Child (1974), however, demonstrated a favorable correlation between board size and company performance. Board size and company performance were found to be negatively correlated by Gill and Mathur (2011).

Based on it, this study develops the following hypothesis:

H_1: There is a negative relationship between board size and bank performance.

CEO age

According to Steven (2010), the age of managers influences how decisions are made, which in turn impacts the expansion of a business. According to Taylor (1975), older decision makers take longer to make decisions than younger ones because they must look for more information and can therefore analyze it more precisely. Younger CEOs are more likely to concentrate on short-term performance to build reputation, whereas older executives are more likely to be more conservative as they approach retirement and concentrate on projects that yield results sooner (Hirshleifer and Thakor, 1994). The performance of the company may benefit from executive age.

Based on it, this study develops the following hypothesis:

H_2: There is a positive relationship between CEO age and bank performance.

Independent directors

In order to improve board effectiveness and keep an eye on management, independent directors are crucial. Independent directors improve corporate governance, which in turn improves firm performance, according to research by Gosh & Sirman (2003) and Lehmann & Weigand (2000). Additionally, Abidin et al. (2009) contended that independent directors play a crucial role in guaranteeing increased oversight, which improves the performance of the company. Considering that opinions on whether or not independent directors enhance company performance are divided.

Based on it, this study develops the following hypothesis:

H_3: There is a negative relationship between independent directors and bank performance.

Founder directors

The term "founder" describes the person in charge of the company's initial expansion and development (Belen et al., 2006). Research on the founder's role typically focuses on family-controlled businesses. It is argued that controlled businesses aim to maximize scale and shareholder value (Mishra, 2001). Similarly, Wiwattanakantang (2001) discovered that family-controlled businesses and controlling shareholders are linked to better performance in Thailand.

Based on it, this study develops the following hypothesis:

H_4: There is a negative relationship between founder directors and bank performance.

Total assets

Assets are things with economic worth that are used over time to benefit the owner. Reyhani (2012) found a positive relationship between total assets and firm performance. These assets gauge the businesses' capacity to endure and contend with one another. However, the structure of capital and the structure of assets are strongly correlated. When deciding to lend money to others, creditors prefer tangible assets, and the company cannot borrow money without a strong asset structure.

Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between total assets and bank performance.

Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2019/20 to 2023/24.

Table 2: Descriptive statistics

The table shows the descriptive statistics for dependent and independent variables. ROA (return on assets, defined as net profit to total assets, in percentage) and ROE (return on equity, defined as net profit to total capital, in percentage) are the dependent variables and BS (board size, defined as total number of directors on the board), CA (CEO age, in years), ID (independent director, number of independent directors on the board), FD (founder directors, number of independent directors on the board), BA (bank age, in years), and TA (total assets, in millions of Rupees) are the independent variables.

Variables	Minimum	Maximum	Mean	Std. Deviation
BS	5.00	13.00	7.49	1.84
CA	35.00	60.00	49.96	5.38
ID	0.00	13.00	3.78	2.88
FD	1.00	5.00	1.89	0.81
TA	2.91	1008.06	148.42	219.61
ROA	0.42	2.90	1.57	0.56
ROE	0.45	72.84	24.91	10.92
BA	1.00	86.00	28.19	17.65

Correlation analysis

Having indicated the descriptive statistics, Pearson's correlation coefficients are computed and the results are presented in Table 3.

Table 3: Pearson's correlation coefficient matrix

This table presents the bivariate Pearson's correlation coefficients between dependent and independent variables. ROA (return on assets, defined as net profit to total assets, in percentage) and ROE (return on equity, defined as net profit to total capital, in percentage) are the dependent variables and BS (board size, defined as total number of directors on the board), CA (CEO age, in years), ID (independent director, number of

independent directors on the board), FD (founder directors, number of independent directors on the board), BA (bank age, in years), and TA (total assets, in millions of Rupees) are the independent variables.

	BS	CA	ID	FD	TA	BA	ROA	ROE
BS	1.000							
CA	0.082	1.000						
ID	.585**	.225*	1.000					
FD	-0.160	-.239*	-0.006	1.000				
TA	.382**	-0.134	.263**	-0.032	1.000			
BA	-.205*	-.262**	-0.092	-0.074	-0.103	1.000		
ROA	-0.080	0.006	-.425**	-0.126	0.093	0.054	1.000	
ROE	-0.042	0.130	-.210*	-0.047	0.016	-0.007	.420**	1.000

Note: the asterisk signs (**) and (*) indicate that the results are significant at 1 percent and 5 percent levels, respectively.

Board size has a negative correlation with both return on equity and return on assets, as Table 3 demonstrates. This suggests that a larger board would result in a lower return on assets. Likewise, there is a positive correlation between CEO age and both return on equity and return on assets. This suggests that return on equity and return on assets would increase with the CEO's age. Similarly, there is a negative correlation between independent directors and both return on equity and return on assets. This suggests that the return on equity and return on assets would decrease with the number of independent directors. Return on equity and return on assets also have a negative correlation with founder directors. This suggests that the more founder directors there are, the lower would be the return on equity and return on assets. Similarly, return on assets and total assets have a positive correlation. This suggests that the return on equity and return on assets would both increase with the total amount of assets. Likewise, there is a positive correlation between return on assets and bank age. This suggests that the return on equity and return on assets would increase with bank age.

Regression analysis

Having indicated the Pearson's correlation coefficients, regression analysis has been

performed and the results are presented in Table 4. More specifically, the table shows the regression results of board size, CEO age, independent directors, founder directors, total assets and bank age on return on assets.

Table 4: Estimated regression results of board size, CEO age, independent directors, founder directors, total assets and bank age on return on assets

These results are based on panel data of 17 banks with 85 observations for the period of 2003/14 to 2023/24 by using linear regression model. The model is $ROA = \alpha_0 + \beta_1 BS + \beta_2 CA + \beta_3 ID + \beta_4 FD + \beta_5 BA + \beta_6 TA +$ *ewhere ROA (return on assets, defined as net profit to total assets, in percentage) is the dependent variable and BS (board size, defined as total number of directors on the board), CA (CEO age, in years), ID (independent director, number of independent directors on the board), FD (founder directors, number of independent directors on the board), BA (bank age, in years), and TA (total assets, in millions of Rupees) are the independent variables.*

Model	Constant	Regression coefficients of						Adj. R_bar2	SEE	F-value
		BS	CA	ID	FD	TA	BA			
1	1.754 (7.639)**	-0.024 (-.808)						0.003	0.556	0.6553
2	1.606 (30.126)**		0.001 (0.063)					0.100	0.5589	0.004
3	1.883 (22.968)**			-0.82 (-4.745)***				0.173	0.5057	22.516
4	1.737 (12.539)**				-0.087 (-1.286)			0.006	0.5543	1.6523
5	1.608 (24.392)**					0.001 (0.940)		0.001	0.5563	0.883
	1.564 (27.324						0.0647 (0.55			

6	)**						0)	0.050	0.88	4.01
	1.412	-0.078 (-		-0.111 (-						
	(6.609)	3.379)*		5.327)*					0.49	14.60
7	**	*		*				0.209	5	2
		-0.080 (-	0.011	-0.117 (-						
	0.859	2.454)*	(1.19	5.471)*					0.49	10.85
8	(1.690)	*	9)	*				0.212	3	6
		-0.087 (-	0.014	-0.119 (-			0.001			
	0.674	2.606)*	(1.41	5.539)*			(0.98		0.50	
9	(1.242)	*	7)	*			5)	0.214	3	7.932
		-0.82	0.012	-0.116	-0.36	0.05				
	0.859	(-	(0.24	(-	(-	(0.39			0.80	10.14
10	(0.180)	0.020)	3)	0.001)	0.57)	7)		0.189	4	8
			0.011							
		-0.084		-0.116	-0.037	0.496				
	0.875	(-	(0.27	(-	(-	(0.84	0.061		0.78	
11	(0.178)	0.022)	5)	0.001)	0.573)	2)	(1.14)	0.215	6	5.955

Note: the asterisk signs (**) and (*) indicate that the results are significant at 1 percent and 5 percent levels, respectively.

The outcome demonstrates that for board size, beta coefficients are negative. It suggests that return on assets is negatively impacted by board size. This result is comparable to Michael's (2009) findings. In a similar vein, the founder director and independent director have negative beta coefficients. It suggests that the return on assets is negatively impacted by independent directors.

In a similar way, CEO age has positive beta coefficients. This result is comparable to Child's (1974) findings. It suggests that the return on assets is positively impacted by the age of the CEO. Similarly, the beta coefficients for bank age and total assets are both positive. It shows that return on equity is positively impacted by total assets. This result is comparable to Hadlock and James's (2002) findings.

Table 5 shows the regression results of board size, CEO age, independent directors, founder directors, total assets and bank age on return on equity.

Table 5: Estimated regression results of board size, CEO age, independent directors, founder directors, total assets and bank age on return on equity

This result is based on panel data of 17 banks with 85 observations for the period of 2019/20 to 2023/24 by using linear regression model. The model is $ROE = \alpha_0 + \beta_1 BS + \beta_2 CA + \beta_3 ID + \beta_4 FD + \beta_5 BA + \beta_6 TA + e$ *where ROE (return on equity, defined as net profit to total capital, in percentage) is the dependent variable and BS (board size, defined as total number of directors on the board), CA (CEO age, in years), ID (independent director, number of independent directors on the board), FD (founder directors, number of independent directors on the board), BA (bank age, in years), and TA (total assets, in millions of Rupees) are the independent variables.*

Model	Constant	Regression coefficients of						Adj. R_bar2	SEE	F-value
		BS	CA	ID	FD	TA	BA			
1	1.564 (27.324)	-0.054 (-0.550)						0.008	10.9623	0.184
2	11.736 (1.173)		0.264 (1.324)					0.017	0.007	1.753
3	27.909 (16.042)			-0.795 (-2.167)**				0.035	10.728	4.695
4	26.096 (9.523)				-0.628 (-0.472)			0.008	10.961	0.223
5	25.024 (19.2423)					0.001 (0.160)		0.10	10.9708	0.026
6	24.931 (22.143)						-0.005 (-0.072)	0.150	10.972	0.005

7	9.610 (0.983)		0.378 (1.901)	-0.953 (- 2.566)* *				0.17 1	0.81	12.92
8	3.991 (0.366)	- 0.810 (- 1.160)	0.393 (1.973)	-1.262 (- 2.764)* *				0.19 7	0.8	10.16
9	3.446 (0.314)	-0.7 (- 0.957)	0.414 (2.031) *	-1.285 (- 2.791)* *	-0.003 (-0.524)			0.24	0.78	9.7
1 0	1.372 (0.116)	-0.01 (- 0.498)	0.767 (1.027)	-0.443 (- 2.082)*	-1.309 (- 0.817)* *	0.003 (0.563)		0.18 9	0.80 4	10.18 4
1 1	0.001 (0.552)	- 0.827 (- 1.072)	0.466 (2.074) *	-1.340 (- .816)**	-0.466 (-0.333)	0.03 (0.578)	- 1.026 (- 0.074)	0.21 5	0.78 6	5.955

Note: the asterisk signs (**) and (*) indicate that the results are significant at 1 percent and 5 percent levels, respectively.

The outcome demonstrates that for board size, beta coefficients are negative. It suggests that return on equity is negatively impacted by board size. The results of Gill and Mathur (2011) are comparable to this one. In a similar vein, bank age, founder director, and independent director have negative beta coefficients. The results of Abidin et al. (2009) are not comparable to this one.

In a similarly, CEO age has positive beta coefficients. It suggests that return on equity is positively impacted by the age of the CEO. This result is comparable to Hirshleifer & Thakor's (1994) findings. Similarly, the coefficients for bets and total assets are positive. It suggests that the return on equity is positively impacted by total assets.

Summary and conclusion

The purpose of this study is to investigate how board size affects Nepalese commercial

banks' return on equity and return on assets. The study's foundation is secondary data from 17 commercial banks, totaling 85 observations from 2019–20 to 2023–2024.

The findings indicate a negative correlation between board size and both return on equity and return on assets. This suggests that a larger board would result in a lower return on assets. Likewise, there is a positive correlation between CEO age and both return on equity and return on assets. This suggests that return on equity and return on assets would increase with the CEO's age. Similarly, there is a negative correlation between independent directors and both return on equity and return on assets. This shows that the return on equity and return on assets would be lower if there were more independent directors. Return on equity and return on assets also have a negative correlation with founder directors. This suggests that the return on equity and return on assets would decrease with the number of founder directors. Similarly, return on assets and total assets have a positive correlation. This suggests that the return on equity and return on assets would both increase with the total amount of assets. Likewise, there is a positive correlation between return on assets and bank age. This suggests that the return on equity and return on assets would increase with bank age. Additionally, the regression results indicate that the beta coefficients for total assets and CEO age are positive. At the five percent level, the coefficients are significant only for independent directors and board size.

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