Impact of Corporate Governance on Firm Value of Nepalese Insurance Companies

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Abstract

The study examines the impact of corporate governance on firm value of Nepalese insurance companies. Return on assets and return on equity are selected as the dependent variables. The selected independent variables are board size, board meetings, independent directors, audit committee, firm size, and firm age. The study is based on secondary data of 15 Nepalese insurance companies with 105 observations for the period from 2016/17 to 2022/23. The data were collected from Insurance Statistics published by Insurance Board of Nepal and annual reports of the selected insurance companies. The correlation coefficients and regression models are estimated to test the significance and importance of corporate governance on firm value of Nepalese insurance companies.

The study showed that board size has a positive impact on return on assets and return on equity. It indicates that increase in board size leads to increase in return on assets and return on equity. Similarly, board meetings have a positive impact on return on assets and return on equity. It indicates that increase in board meetings lead to increase in return on assets and return on equity. Likewise, independent directors have a negative impact on return on assets and return on equity. It indicates that presence of independent directors lead to decrease in return on assets and return on equity. In addition, audit committee has a positive impact on return on assets and return on equity. It indicates that increase in audit committee member leads to increase in return on assets and return on equity. Further, the study also showed that firm size has a positive impact on return on assets and return on equity. It indicates that increase in firm size leads to increase in return on assets and return on equity. In addition, firm age has a positive impact on return on assets and return on equity. It indicates that older the firms, higher would be the return on assets and return on equity.

Keywords: board size, board meetings, independent directors, audit committee, firm size, firm age, return on assets, return on equity

1. Introduction

Firms' governance plays an important role in the probability of accounting frauds and firms which have a weak governance structure being

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more prone to accounting frauds (Berkman *et al.*, 2009). Further, the failure in preventing these scams has fueled many debates on the effectiveness of current corporate governance rules, principles, structures and mechanisms (Sun *et al.*, 2011). Corporate governance has been defined as the relationship among shareholders, board of directors and the top management in determining the direction and performance of the corporation. Corporate governance as a philosophy and mechanism that entails processes and structure which facilitates the creation of shareholder value through management of corporate affairs in such a way that ensures the protection of the individual and collective interest of all the stakeholders (Butt and Hasan, 2009). Similarly, Arora and Sharma (2016) revealed that the corporate collapses resulting from a weak system of corporate governance highlighted the need to improve and reform the governance structure. Likewise, Shleifer and Vishny (1997) defined corporate governance as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Further, Gillan and Starks (1998) defined corporate governance as the system of laws, rules, and factors that control operations at a company. The jobs of board of directors are to set the organizational philosophies, delineate an organizational strategic plane, ensuring the availability of resources to mangers and inspiring them to materialize those goals, in an accountable way, and at the same time also to provide adequate and timely information for shareholders (Lopes and Walker, 2012).

Corporate governance aims at facilitating effective monitoring and efficient control of business. Its essence lies in fairness and transparency in operations and enhanced disclosures for protecting interest of different stakeholders (Arora and Bodhanwala, 2018). According to Darkwah *et al.* (2016), the primary goal of firms is to achieve the maximum possible profit while satisfying the interests of its stakeholders. The study stated that governance promotes investment and generates higher profits for firms by increasing the access to capital and reducing potential risks. Similarly, Li *et al*. (2017) analyzed the impact of corporate governance on the performance of life insurance companies in China using a questionnaire survey. The study revealed that good governance reduces the agency problem, which is reflected in the performance and profitability of firms. Pillai and Al-Malkawi (2017) stated that corporate governance practices are more likely to achieve broad measures of success in the future by eliminating or reducing cases of financial and administrative corruption and gaining the confidence of stakeholders. Similarly, governance also provides protection to investors through its

compliance with laws and ethical responsibilities and the commitment of all employees to these ethics. In addition, governance increases the level of confidence in firms, improves the level of transparency, and reduces the level of risk, which lead to a better business environment and stability (Alabdullah, 2016). Dang *et al.* (2023) analyzed the corporate governance and global financial crisis. The study revealed that corporate governance positively impacts on the firm value of listed firms in term of board independence, the presence of female member in board, large shareholders and foreign investors. Likewise, Wijesinghe *et al.* (2020) examined the impact of corporate governance on firm value. The study revealed that the number of board meetings of listed manufacturing companies capable of improving firm value. Further, the study also identified that the control and risk management system of manufacturing entities positively impact on firm value while board size and the board committees do not contribute significantly to improve the firm value of manufacturing sector entities in Sri Lanka. Likewise, Gul *et al.* (2018) studied the impact of corporate governance variables on market valuation of corporate firms in Pakistan. The study revealed that CG plays a major role in determining market valuation of corporate firms in Pakistan. Further, the study also showed that the market value of a firm varies with the level of its insiders' ownership, and the pattern of valuation differs relying jointly on CG and insiders' ownership. In addition, Azizah (2020) revealed that the nature and quality of the audit committee are important factors which influence the firm value in Indonesia. Similarly, Mukyala *et al.* (2020) examined a comparative study between corporate governance and firm value. The study revealed that the board size, board independence, and board expertise as proxies of corporate governance significantly affect the firm value.

Markonah *et al.* (2019) examined the effect of corporate governance and premium growth on the performance of insurance companies in Indonesia during the period from 2011 to 2017. The study concluded that applying corporate governance improves the growth of companies. Similarly, Junaid *et al.* (2020) explored the relationship between corporate governance mechanisms and the performance of insurers in Pakistan using the data of listed insurers on the Pakistan Stock Exchange. The findings of this study indicated that board composition, ownership concentration, and executive compensation are the most influential internal mechanisms for the insurers' performance. This study also revealed that executive directors usually work for their own benefits instead of company goal while non-executive directors

are not involving the daily operations and, therefore cannot monitor the resources of the company. Mehari and Aemiro (2013) examined the impact of the Ethiopian insurance companies' characteristics on their performance. The study found that company size, loss ratio, tangibility and leverage represent important determinants of insurers' performance, while growth of gross written premiums, age and liquidity have an insignificant statistical power. Similarly, Malik (2011) assessed the determinants of insurance companies' profitability through an analysis of insurance companies of Pakistan. This study revealed that there is positive impact of size on ROA, whereas negative impact of the leverage on ROA.

Akhavein *et al*. (1997) analyzed the effect of megamergers on efficiency and prices through evidence from a bank profit function. The study found that there is a positive correlation between size and profitability. Moreover, Maksimovic (1998) argued that profitability is one of the most important objectives of financial management since one goal of financial management is to maximize the owner's wealth and profitability is very important determinants of performance. Therefore, the study also showed that there is a significant and a positive association between size of the company and the profitability. The important determinants of performance for life insurance companies of Pakistan are indicated through size, risk and leverage (Ahmed *et al*., 2011). Insurance companies involve a variety of stakeholders that exhibit differing incentives and objectives. For example, while all stakeholders in insurance companies agree that their main objective is insurer solvency, they still may, on an individual basis, exhibit a varying desired level of risk taking (Cole *et al.,* 2011). Garven and Lamm-Tennant (2003) showed that reinsurers have an incentive to monitor the behavior of insurers to avoid financial distress and minimize excessive taxes. Outside directors appointed on the BODs have a significant and a positive impact on effectively monitoring management (Linck *et al.,* 2008).

Similarly, Booth *et al.* (2002) explored that industry confronts a different set of agency costs and may lack adequate corporate governance controls as a result of the distinctive nature of its assets and liabilities, the special character of its ownership structure, fewer hostile takeovers, and the higher degree of financial leverage. Thus, empirical findings from non-financial services industries may not apply to financial service industries, though regulators, executives, investors, and policyholders must understand how corporate governance structure affects insurers' performance. Moreover, Hovey (2012) concluded that lower frequency of board meeting and lower

ratio of institutional ownership have better influence on firm performance. The result also showed that audit committee diligence and efficiency argued that effectiveness of audit committee meetings may be hampered with overloaded agenda.

Nyamongo and Temesgen (2013) showed that there is a positive relationship between number of independent board directors and performance of commercial banks. The study also revealed that there is no evidence that CEO duality has an impact on the performance of the firm. A bank with large board members has more capabilities to monitor the managers and to get resources from outside sources at lower costs (Karim, 2015). Adams and Mehran (2012) examined the relationship between banks' board structure and performance. The study indicated that board independence has no influence on bank performance. Similarly, Johl *et al*. (2015) argued that board independence does not significantly affects the firm's performance. However, Rhoades *et al.* (2017) analyzed the relationship between firms' performance and board independence. The study revealed that there is a positive and insignificant impact of board independence on firm's performance.

In the context of Nepal, Pradhan (2014) examined the corporate governance and bank performance in Nepal. The study revealed that there is a significant impact of corporate governance on return on assets as well as return on equity in the financial institutions mainly commercial banks. The study also revealed that board size and total assets have positive and significant impact on return on assets whereas the executive CEO has an insignificant effect on ROA. Similarly, Saphi *et al.* (2023) found that board management and structure disclosure, accounting and auditing disclosure, remuneration of directors' disclosure, ownership disclosure, and risk management disclosure all have positive impact on earnings per share (EPS). Moreover, Karki *et al.* (2023) revealed that female directors on the board, family ownership, and leverage have negative impact on return on assets and basic earning power ratio. Additionally, female executives in the management team, board size, board independence, firm size, and net interest margin have positive impact on return on assets and basic earning power ratio.

Bhandari *et al.* (2014) examined the effect of board size, board composition, and ownership structure on bank performance. The result found that corporate governance, board size and board independence have significantly impact on bank performance. Similarly, Poudel and Hovey (2012) showed that bigger board and audit committee size and lower frequency of

board meeting and lower proportion of institutional ownership led to better efficiency in the commercial banks. Likewise, Bhattrai (2017) found that the board size has a negative impact on financial performance of commercial banks in Nepal whereas audit committee size and portion of independent directors have positive impact on financial performance of commercial banks in Nepal. Further, Pradhan *et al.* (2017) examined the impact of fundamental factors on stock price. The study showed that dividend per share (DPS), return on assets (ROA) and earning per share (EPS) are positively related to the stock price.

The above discussion shows that empirical evidences vary greatly across the studies on the impact of corporate governance on firm value of insurance companies. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to examine the impact of corporate governance on firm value of Nepalese insurance companies. Specifically, it examines the relationship of board size, board meetings, independence directors, audit committee, firm size, and firm age with firm value of Nepalese insurance companies.

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

2. Methodological aspects

The study is based on the secondary data which were gathered from 15 insurance companies for the period of 2016/17 to 2022/23, leading to a total of 105 observations. The study employed stratified sampling method. The main sources of data include Insurance Statistics published by Insurance Board of Nepal and annual reports of the selected insurance companies. Table 1 shows the list of insurance companies for the study along with the study period and number of observations.

Table 1

List of insurance companies selected for the study along with the study period and number of observations

S.N.	Name of Commercial Banks	Study time Period	Observations
1	Shikhar Insurance Company Limited	2016/17-2022/23	7
2	Prabhu Insurance Company Limited	2016/17-2022/23	7
3	Neco Insurance Company Limited	2016/17-2022/23	7
4	NLG Insurance Company Limited	2016/17-2022/23	7
5	Nepal Life Insurance Company Limited	2016/17-2022/23	7
6	Himalayan General Insurance Company Limited	2016/17-2022/23	7
7	Lumbini General Insurance Company Limited	2016/17-2022/23	7
8	Prudential Insurance Company Limited	2016/17-2022/23	7
9	National Life Insurance Company Limited	2016/17-2022/23	7
10	Asian Life Insurance Company Limited	2016/17-2022/23	7
11	Surya Life Insurance Company Limited	2016/17-2022/23	7
12	Jyoti Life Insurance Company Limited	2016/17-2022/23	7
13	Met Life Insurance Company Limited	2016/17-2022/23	7
14	Sun Life Insurance Company Limited	2016/17-2022/23	7
15	United Insurance Company Limited	2016/17-2022/23	7
Total number of observations			**105**

Source: Annual Reports

Thus, the study is based on 105 observations.

The model

The model used in this study assumes that firm value of insurance companies depends upon corporate governance. The dependent variables selected for the study are return on assets and return on equity. Similarly, the selected independent variables are board size, board meetings, independence directors, audit committee, firm size, and firm age. Therefore, the model takes the following form:

$$ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 ID_{it} + \beta_4 AC_{it} + \beta_5 FS_{it} + \beta_6 FA_{it} + e_{it}$$

$$ROE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 ID_{it} + \beta_4 AC_{it} + \beta_5 FS_{it} + \beta_6 FA_{it} + e_{it}$$

Where,

ROA = Return on assets as measured by the ratio of net income divided by total assets, in percentage.

ROE = Return on equity as measured by the ratio of net income divided by total equity, in percentage.

BS = Board size as measured by the total number of directors on the board, in number.

BM = Board meeting defined as the number of meetings of board of directors of a company, in number.

ID = Independent directors defined as the number of independent directors on the board of company, in number.

AC = Audit committee is defined as the number of audit committee member, in number.

FS = Firm size is defined as natural logarithm of total assets, in Rs.

FA = Firm age, is defined as the established time of the firm, measured in years.

The following section describes the independent variables used in this study along with the hypothesis formulation:

Board size

Smaller board size is more efficient than the larger board size to obtain higher market valuation, such as earning per share and market capitalization (Yermack, 1996). Wijesinghe *et al.* (2020) found that board size has no significant contribution to improve the firm value. Similarly, Sheikh and Karim (2015) found that board size has a positive and significant relationship with firm value. Likewise, Heraniah (2022) revealed that board size has a positive and significant relationship with firm value. Further, Pradhan (2014) found a positive and significant relationship between board size and firm value. Moreover, Abang *et al.* (2022) showed that there is a positive but an insignificant relationship between board size and capital budget realization ratio (CBRR). Based on it, this study develops the following hypothesis:

H_1: There is a positive relationship between board size and firm value.

Board meetings

Board meeting refers to the meeting of directors of the company. Board meetings and its intensity are recognized as a mean to enhance the monitoring activity by board members and reflect on firm performance (Jensen and

Murphy, 1990). The intensity and frequency of board meetings is a major tool to measure the effectiveness of monitoring by the board of directors (Ntim and Osei, 2011). Board meetings is an important aspect of good governance (Vafeas and Theodorou, 1998). The number of board of director meetings significantly improve company performance based on market value of the company shares. The attendance level of the board of director meeting significantly improves company performance (Agung and Ulupui, 2019). Brick and Chidambaran (2010) found that board activity has a positive impact on firm value. Moreover, Ntim and Osei (2011) revealed that more meeting time of the board encourages a firm to increase the profitability ratio. The study also concluded that there is a positive and a significant relationship between board meeting and firm value. Based on it, this study develops the following hypothesis:

H2: There is a positive relationship between board meetings and firm value.

Independence directors

Dang *et al.* (2023) found that board independence has a positive impact on firm value. Similarly, Mukyala *et al.* (2020) revealed that board independence has a positive impact on firm value. Likewise, Karki *et al.* (2023) revealed that board independence has a positive impact on firm value measured by return on assets and earning per share. However, Kumar and Singh (2012) argued that board independence has an insignificant but positive impact on firm value. Furthermore, Brown and Caylo (2006) found that there is no relationship between board independence and firm value. Based on it, this study develops the following hypothesis:

H_3: There is a positive relationship between independence directors and firm value.

Audit committee

Azizah (2020) revealed that the nature and quality of the audit committee are important factors influencing firm value. However, Hossain and TohidulAlam (2019) revealed that audit committee is negatively related to firm value. Likewise, Poudel and Hovey (2012) showed that bigger audit committee size led to better efficiency in the commercial banks. Al-Mamun *et al.* (2014) found that the audit committee size has a positive impact on the firm performance. Based on it, this study develops the following hypothesis:

H_4: There is a positive relationship between audit committee and firm value.

Firm size

Promsen (2015) examined the value relevance of corporate governance on firm value in the comprehensive income context. The study found that total assets have significant impact on firm value. However, Setiadharma and Machali (2017) found that there is no direct effect of firm size on firm value. Likewise, Pradhan (2014) revealed that total assets have positive and significant impact on firm value measured by return on assets. However, Hirdinis (2019) revealed that firm size has a significant negative effect on firm value. Similarly, Lumapow and Tumiwa (2017) showed that firm size has a positive and significant impact on firm value. Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between firm size and firm value.

Firm age

Lambey (2021) revealed that bank age has a significant and positive impact on firm value. However, Chay (2015) showed that firm age has a negative impact on firm value. Similarly, Putri and Rachmawati (2017) revealed that company age has a negative and significant impact on firm value. Likewise, Tiara and Jayanti (2022) revealed that firm age has a significant negative impact on firm value. However, Zhang (2018) revealed that firm age has a positive impact on firms' performance. Based on it, this study develops the following hypothesis:

H_6: There is a positive relationship between firm age and firm value.

3. Results and discussions

Descriptive statistics

Table 2 represents the descriptive statistics of selected dependent and independent variables during the period 2016/17 to 2022/23.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 15

Nepalese insurance companies for the study period of 2016/17 to 2022/23. The dependent variables are ROA (Return on assets as measured by the ratio of net income divided by total assets, in percentage), and ROE (Return on equity as measured by the ratio of net income divided by total equity, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in number), BM (Board meeting defined as the number of meetings of board of directors of a company, in number), ID (Independent directors defined as the number of independent directors on the board of company, in number), AC (Audit committee is defined as the number of audit committee member, in number), FS (Firm size is defined as natural logarithm of total assets, in Rs), and FA (Firm age, is defined as the established time of the firm, measured in years).

Variables	Minimum	Maximum	Mean	S.D.
ROA	0.13	10.49	3.65	2.40
ROE	0.13	20.12	9.40	4.38
BS	4.00	10.00	6.59	0.89
BM	4.00	49.00	17.89	9.56
ID	0.00	1.00	0.60	0.49
AC	2.00	4.00	3.23	0.54
FS	19.89	25.06	22.77	0.99
FA	2.00	77.00	24.84	15.53

Source: SPSS Output

Correlation analysis

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

Table 3

Pearson's correlation coefficients matrix

This table shows the correlation coefficients of dependent and independent variables of 15 Nepalese insurance companies for the study period of 2016/17 to 2022/23. The dependent variables are ROA (Return on assets as measured by the ratio of net income divided by total assets, in percentage), and ROE (Return on equity as measured by the ratio of net income divided by total equity, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in number), BM (Board meeting defined as the number of meetings of board of directors of a company, in number), ID (Independent directors defined as the number of independent directors on the board of company, in number), AC (Audit committee is defined as the number of audit committee member, in number), FS (Firm size is defined as natural logarithm of total assets, in Rs), and FA (Firm age, is defined as the established time of the firm, measured in years).

Variables	ROA	ROE	BS	BM	ID	AC	FA	FS
ROA	1							
ROE	0.529**	1						
BS	0.188	0.100	1					
BM	0.212	0.107	0.162	1				
ID	-0.013	-0.222	0.019	0.037	1			
AC	0.018	0.000	-0.028	-0.344**	0.246*	1		
FA	0.238*	0.146	-0.003	0.099	0.322**	-0.087	1	
FS	0.486**	0.177	0.332**	0.002	0.290*	0.039	-0.056	1

Note: the asterisk signs (**) and (*) indicate that coefficients are significant at one percent and five percent levels of respectively.

Table 3 shows that board size has a positive relationship with return on assets. It indicates that higher the board size, higher would be the return on assets. Similarly, board meetings have a positive relationship with return on assets. It indicates that increase in board meetings lead to increase in return on assets. Likewise, independent directors have a negative relationship with return on assets. It indicates that presence of independent directors in the board leads to decrease in return on assets. However, audit committee has a positive relationship with return on assets. It indicates that increase in audit committee members leads to increase in return on assets. In addition, firm size has a positive relationship with return on assets. It indicates that increase in firm size leads to increase in return on assets. Moreover, firm age has a positive relationship with return on assets. It indicates that older the firms, higher would be the return on assets.

Similarly, board size has a positive relationship with return on equity. It indicates that higher the board size, higher would be the return on equity. Similarly, board meetings have a positive relationship with return on equity. It indicates that increase in board meetings lead to increase in return on equity. Likewise, independent directors have a negative relationship with return on equity. It indicates that presence of independent directors in the board leads to decrease in return on equity. However, audit committee has a positive relationship with return on assets. It indicates that increase in audit committee members leads to increase in return on equity. In addition, firm size has a positive relationship with return on equity. It indicates that increase in firm size leads to increase in return on equity. Moreover, firm age has a positive relationship with return on equity. It indicates that older the firms, higher would be the return on equity.

Regression analysis

Having analyzed the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 4 and Table 5. More specifically, Table 4 shows the regression results of board size, board meetings, independent directors, audit committee, firm age, and firm size on firm value of Nepalese insurance companies.

Table 4

Estimated regression results of board size, board meetings, independent directors, audit committee, firm age, and firm size on return on assets

The results are based on panel data of 15 Nepalese insurance companies with 105 observations for the period of 2016/17 to 2022/23 by using the linear regression model and the model is $ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 ID_{it} + \beta_4 AC_{it} + \beta_5 FS_{it} + \beta_6 FA_{it} + e_{it}$ where, the dependent variable is ROA (Return on assets as measured by the ratio of net income divided by total assets, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in number), BM (Board meeting defined as the number of meetings of board of directors of a company, in number), ID (Independent directors defined as the number of independent directors on the board of company, in number), AC (Audit committee is defined as the number of audit committee member, in number), FS (Firm size is defined as natural logarithm of total assets, in Rs), and FA (Firm age, is defined as the established time of the firm, measured in years).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	BM	ID	AC	FA	FS			
1	6.995 (3.388)**	0.507 (1.633)						0.022	2.370	2.667
2	2.77 (4.651)**		0.053 (1.858)					0.032	2.357	3.459
3	3.691 (8.380)**			-0.064 (0.113)				-0.014	2.412	(0.013
4	3.907 (2.278)*				0.079 (0.15)			-0.013	2.412	0.023
5	2.742 (5.353)**					0.037 (2.198)*		0.044	2.343	4.367
6	30.566 (5.392)**						1.182 (3.289)**	0.266	2.108	22.585
7	6.596 (3.264)**	0.617 (2.009)*	0.062 (2.196)*					0.071	2.310	3.815
8	3.901 (2.256)*			-0.046 (0.078)	0.068 (0.126)			-0.027	2.429	0.014
9	29.1 (5.212)**					0.033 (2.106)*	1.153 (4.736)**	0.261	2.060	14.041
10	6.642 (3.233)**	0.616 (1.993)*	0.063 (2.186)*	-0.088 (0.161)				0.058	2.326	2.518
11	28.851 (5.000)**				0.086 (0.19)	0.033 (2.100)*	1.155 (4.708)**	0.251	2.074	9.248
12	27.583 (4.442)**	0.185 (0.637)	0.059 (2.165)*	0.165 (0.288)	0.39 (0.779)	0.028 (1.704)	1.134 (4.148)**	0.272	2.044	5.615

Notes:

i. Figures in parenthesis are t-values.
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Return on assets is the dependent variable.

Table 4 shows that the beta coefficients for board size are positive with return on assets. It indicates that board size has a positive impact on return on assets. This finding is consistent with the findings of Sheikh and Karim (2015). Similarly, the beta coefficients for board meetings are positive with return on assets. It indicates that board meetings have a positive impact on return on assets. This finding is consistent with the findings of Brick and Chidambaran (2010). Likewise, the beta coefficients for independent directors are negative with return on assets. It indicates that board independent directors have a negative impact on return on assets. This finding is consistent with the findings of Brown and Caylo (2006). Further, the beta coefficients for audit committee are positive with return on assets. It indicates that audit committee has a positive impact on return on assets. This finding is consistent with the findings of Poudel and Hovey (2012). In addition, the beta coefficients for firm age are positive with return on assets. It indicates that firm age has a positive impact on return on assets. This finding is consistent with the findings of Zhang (2018). Likewise, the beta coefficients for firm size are positive with return on assets. It indicates that firm size has a positive impact on return on assets. This finding is consistent with the findings of Lumapow and Tumiwa (2017).

Table 5 shows the estimated regression results of board size, board meetings, independent directors, audit committee, firm age, and firm size on firm value of Nepalese insurance companies.

Table 5

Estimated regression results of board size, board meetings, independent directors, audit committee, firm age, and firm size on return on equity

The results are based on panel data of 15 Nepalese insurance companies with 105 observations for the period of 2016/17 to 2022/23 by using the linear regression model and the model is $ROE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BM_{it} + \beta_3 ID_{it} + \beta_4 AC_{it} + \beta_5 FS_{it} + \beta_6 FA_{it} + e_{it}$ where, the dependent variable is ROE (Return on equity as measured by the ratio of net income divided by total equity, in percentage). The independent variables are BS (Board size as measured by the total number of directors on the board, in number), BM (Board meeting defined as the number of meetings of board of directors of a company, in number), ID (Independent directors defined as the number of independent directors on the board of company, in number), AC (Audit committee is defined as the number of audit committee member, in number), FS (Firm size is defined as natural logarithm of total assets, in Rs), and FA (Firm age, is defined as the established time of the firm, measured in years).

Model	Intercept	Regression coefficients of						Adj. R_bar^2	SEE	F-value
		BS	BM	ID	AC	Age	FS			
1	12.656 (3.309)**	0.494 (0.858)						0.004	4.390	0.737
2	8.527 (7.894)**		0.049 (0.917)					0.002	4.386	0.842
3	8.221 (10.465)**			-1.969 (1.942)				0.036	4.302	3.771
4	9.414 (3.001)**				0.004 (0.024)			0.014	4.412	0.218
5	8.379 (8.768)**					0.041 (1.261)		0.008	4.364	1.589
6	8.554 (0.733)						0.789 (1.541)	0.018	4.342	2.371
7	12.286 (3.203)**	0.595 (1.021)	0.058 (1.071)					0.002	4.385	0.943
8	9.692 (3.148)**			-2.097 (1.994)*	0.481 (0.494)			0.026	4.324	1.988
9	10.545 (0.902)					0.044 (1.364)	0.828 (1.623)	0.031	4.316	2.131
10	11.27 (2.963)**	0.609 (1.065)	0.054 (1.025)	-1.951 (1.921)				0.035	4.305	1.882
11	10.685 (0.884)				0.049 (0.051)	0.044 (1.354)	0.827 (1.609)	0.016	4.346	1.401
12	8.331 (0.637)	0.949 (1.553)	0.057 (1.003)	-1.098 (0.913)	0.065 (0.062)	0.031 (0.849)	0.938 (1.628)	0.035	4.305	1.441

Notes:

i. Figures in parenthesis are t-values.
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Return on equity is the dependent variable.

Table 5 shows that the beta coefficients for board size are positive with return on equity. It indicates that board size has a positive impact on return on equity. This finding is consistent with the findings of Heraniah (2022). Similarly, the beta coefficients for board meetings are positive with return on equity. It indicates that board meetings have a positive impact on return on equity. This finding is not consistent with the findings of Brick and Chidambaran (2010). Likewise, the beta coefficients for independent directors are negative with return on equity. It indicates that board independent directors have a negative impact on return on equity. This finding is consistent with the findings of Brown and Caylo (2006). Further, the beta coefficients for audit committee are positive with return on equity. It indicates that audit committee has a positive impact on return on equity. This finding is consistent with the findings of Al-Mamun *et al.* (2014). In addition, the beta coefficients for firm age are positive with return on equity. It indicates that firm age has a positive impact on return on equity. This finding is consistent with the findings of Lambey (2021). Likewise, the beta coefficients for firm size are positive with return on equity. It indicates that firm size has a positive impact on return on

equity. This finding is consistent with the findings of Promsen (2015).

4. Summary and conclusion

Corporate governance is a set of process an entity's culture, policies, laws and institutional value that affects way a corporation is directed, administered or controlled. Good corporate governance leads to ethical business practices, which leads to financial viability. Strong and effective corporate governance helps to cultivate a company culture of integrity, leading to positive performance and a sustainable business overall. Corporate governance is the internal system of rules, practices, processes, and other contractual and organizational schemes by which a firm is directed and controlled. This control mechanism is established by the board of directors to ensure managerial accountability and financial reporting reliability. Essentially, it exists to increase the accountability of all individuals and teams within the company. Hence, good corporate governance can lead to better firm performance.

The study attempts to examine the impact of corporate governance on firm value of Nepalese insurance companies. This study is based on the secondary data gathered from 15 Nepalese insurance companies for the study period from 2016/17 to 2022/23.

The major conclusion of this study is that board size, board meetings, audit committee, firm age, and firm size have a positive relationship with return on assets and return on equity. It indicates that higher the board size, board meetings, audit committee, firm age, and firm size, higher would be the return on assets and return on equity. In contrast, independent directors have a negative relationship with return on assets and return on equity. It indicates that increase in independent directors leads to decrease in return on assets and return on equity. Likewise, the study also concluded that firm size followed by board size is the most influencing factor that explains the changes in the return on assets and return on equity in the context of Nepalese insurance companies.

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