The Impact of Corporate Governance on the Cost of Equity in Nepalese Commercial Banks

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Abstract

The study examines the impact of corporate governance on the cost of equity in Nepalese commercial banks. Stock dividend and cash dividend are selected as the dependent variables. The selected independent variables are board independence, institutional ownership, female director, audit committee size, board size, government ownership, and number of meeting. The study is based on secondary data of 15 commercial banks with 105 observations for the period from 2015/16 to 2021/22. The data were collected from Banking and Financial Statistics published by Nepal Rastra Bank and annual reports of the selected commercial banks. The correlation coefficients and regression models are estimated to test the significance and importance of corporate governance on the cost of equity in Nepalese commercial banks.

The study showed that board independence has a negative impact on stock dividend and cash dividend. It indicates that increase in number of independent directors on the board leads to decrease in stock dividend and cash dividend. Similarly, institutional ownership has a positive impact on stock dividend and cash dividend. It indicates that higher the number of shares held by the entities, higher would be the stock dividend and cash dividend. Likewise, female board of director has a positive impact on stock dividend and cash dividend. It indicates that presence of female director in the board leads to increase in stock dividend and cash dividend. Further, audit committee size has a positive impact on stock dividend and cash dividend. It indicates that increase in audit committee members leads to increase in stock dividend and cash dividend. In addition, board size has a negative impact on stock dividend and cash dividend. It indicates that higher the board size, lower would be the stock dividend and cash dividend. Likewise, government ownership has a negative impact on stock dividend and cash dividend. It indicates that higher the government ownership, lower would be the stock dividend and cash dividend. Moreover, number of meeting has a positive impact on stock dividend and cash dividend. It indicates that increase in the number of board meetings leads to increase in stock dividend and cash dividend.

Keywords: board independence, institutional ownership, female director, audit committee size, board size, government ownership, number of meeting, stock dividend, cash dividend

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1. Introduction

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 (Wheelen and Hunger, 2006). Butt and Hasan (2009) stated that 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. Similarly, Arora and Sharma (2016) revealed that 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). Likewise, boards are accountable to shareholders and their actions are subject to strict laws and regulations (Cadbury, 1992).

Poor corporate governance of the bank can drive the market to lose confidence in the ability of a bank then it leads to economic crisis in a country and invite systematic risk (Garcia-Marco *et al.*, 2008). However, good corporate governance strengthens property rights, minimizes transaction cost and the cost of capital, and leads to capital market development (Claessens and Fan, 2002). Valencia-Sanchez *et al.* (2006) argued that corporate governance is the basis that organizations should not just be managed well but run effectively and internally regulated, both formally and informally. Moreover, corporate governance is a set of process an entity's culture, policies, laws and institutional value that affects the way a corporation is directed, administered or controlled (Shleifer and Vishny, 1997). The good corporate governance concept to control and audit the committee and corporate management by setting the code of best practices to reduce the agency problem as well as help reduce the financial report decoration and corruption behavior of the management (Chen *et al.,* 2009). In addition, this concept is for the committees and the executives' management to process honestly and carefully according to the policy. This

will result in the form of 13 the company's management to be accepted as having the universal operational standard. This is to form the confidence for investors to see that the firm has the transparency and to reduce the risks from advantages seeking by the committees and the management. It is expected that the good governance will make the company's parties of interest accept the fairly treatment. From the evaluation of corporate governance which is to stimulate for the alertness to the serious and ongoing development of the corporate governance mechanism, it would help add economic value to the business. Moreover, it is be the information for investors to bring the evaluation results to make decision for their further investment (Srichanphet, 2009). Cost of capital functions to connect between the decision of investment and decision to find out the company's fund together that it will reflect the ratio of capital which the company arranges to use in its investment. Cost of capital to assist the firm in their insufficient resources calculation for the long-term investment (Gitman and Vandenberg, 2000). The businesses have to rely on the financing fund, either from liability or from capital. For either the economy or the firm, financing costs are important as they can affect the decision of investment and, eventually, economic growth since capital is the key financing structure component of the firm (Zorn, 2007).

Setiany *et al.* (2017) examined the board independence, voluntary disclosure, and the cost of equity capital. The study found that there is no relationship between board independence and cost of equity capital. On the other hands the result shows that there is a significant relationship between voluntary disclosure and firm's cost of equity capital. Similarly, Ali and Butt (2009) analyzed the impact of corporate governance on the cost of equity: An empirical evidence from Pakistani listed companies. The study found that managerial ownership and board size have negative impact on cost of equity. In contrast, the study found that board independence, audit committee independence, and corporate governance have positive impact on cost of equity. Likewise, Odat *et al.* (2021) analyzed the corporate governance and the cost of equity: Evidence from the developing country. The study found that CEO duality and board political influence negatively affect the cost of equity, while there is no significant effect of board size, board independence, and multiple directorships on the cost of equity. Further, Moss (2016) determined the impact of corporate governance and earnings management practices on cost of equity capital: An evidence from Thai listed companies. The study revealed that companies with higher earnings management, higher proportion of managerial ownership, institutional ownership, CEO-Chair duality and

which receive modified audit opinions are likely to have higher cost of equity capital. In contrast, the companies that have higher proportion of board independence, audit committee financial expertise and board interlocking are likely to have lower cost of equity capital.

AlHares *et al.* (2020) examined the institutional ownership and cost of capital: An international study. The study found that institutional ownership is statistically positively related to cost of capital. Similarly, Khemakhem and Naciri (2015) assessed the impact of board size and audit committee characteristics on firms' cost of equity capital. The study found that board size, audit committee size and board independence have positive impact on firms' cost of equity. Likewise, Fakhari and Rezaei (2017) revealed that there is a positive relationship between audit committee size and cost of equity. Further, Ben-Nasr *et al.* (2012) analyzed the political determinants of the cost of equity: An evidence from newly privatized firms. The study found that there is a positive relationship between government ownership and cost of equity. In addition, Belkhir and Samet (2022) assessed the government ownership and bank cost of equity. The study revealed that the government ownership-bank cost of equity relationship depends on a country's quality of institutions and economic development. Specifically, the study found that better institutional quality mitigates the negative effect of government ownership on banks' cost of equity. Additionally, the study found that government ownership lowers banks' cost of equity in times of financial turmoil. Similarly, Aljughaiman *et al.* (2022) revealed that firms with female directors on boards are likely to exhibit a lower cost of equity, through relying on a less risky financing decision. Likewise, Ali *et al.* (2019) found that block ownership, insider ownership and the board size are insignificant, while CEO tenure is negatively and significantly associated with the cost of equity. Likewise, the study also found that non-executive directors, independence and CEO duality are insignificant; however, diversity is positively and significantly associated with cost of equity. Moreover, Wellalage (2012) examined the corporate governance and cash dividend policy: An evidence from Chinese IPOs. The study revealed that large, profitable IPOs with large boards and a high proportion of independent and female directors and CEO duality are willing to pay high dividends to their shareholders. This study indicates the requirement for the promulgation or streamlining of corporate laws in emerging markets to reduce the possibility of expropriation of minority shareholders by politically powered large shareholders.

Ramly (2012) examined the impact of corporate governance quality on

the cost of equity capital in an emerging market: An evidence from Malaysian listed firms. The study found that corporate governance has a reducing effect on cost of equity. Firms having higher corporate governance quality in terms of credible board monitoring and financial reporting process and internal control system as well as empowering shareholders seem to enjoy a lower cost of equity. Similarly, Wahab *et al.* (2020) analyzed the political connections, corporate governance, and the cost of equity in Malaysia. The study revealed that there is a negative and significant relationship between political patronage and cost of equity suggesting that connected firms are less risky than non-connected firms. The study also revealed that corporate governance (board size, level of independent director, chief executive-officer duality, institutional investors and auditor size) could minimize the cost of equity. Likewise, Cheng and Ji (2021) found that the implementation of employee stock ownership plan reduces the cost of equity capital of enterprises. The study also stated that compared with state-owned enterprises and large enterprises, the implementation of employee stock ownership plan is more likely to reduce the cost of equity capital in non-state-owned enterprises and small enterprises. Furthermore, the reduction effect of employee stock ownership plan on the cost of equity capital is influenced by the contract design of employee stock ownership plan. Further, Qubbaja (2018) analyzed the impact of corporate governance quality on the cost of equity capital: An evidence from Palestinian firms. The study found that firms having high quality corporate governance practices have lower cost of equity. As regards to the control variables, liquidity and company size have not furnished a statistically significant contribution to determination of the cost of equity. Similarly, Awotundun (2018) examined the Effect of board structure and dividend policy of commercial banks in Nigeria. The study found that board structure particularly board size and board independence have significant negative relationship with dividend policy.

In the context of Nepal, Singh and Sharma (2022) examined the impact of ownership pattern and financial performance on corporate governance of banks. The study found that board independence and board size have negative and significant impact on cost of capital. Similarly, Bajagai *et al.* (2019) assessed the impact of ownership structure and corporate governance on capital structure of Nepalese listed companies. The study found that institutional shareholding and managerial shareholding have positive relationship with capital structure. However, board size has a negative relationship with capital structure while board composition and women

directors have positive and significant impact on capital structure of Nepalese listed companies. Likewise, Karki et al. (2023) revealed that female directors on the board, family ownership, and leverage have negative impact on stock dividend. Additionally, female executives in the management team, board size, board independence, firm size, and net interest margin have positive impact on basic earning power ratio. Further, 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 significant impact on capital structure.

The above discussion shows that empirical evidences vary greatly across the studies on the impact of corporate governance on the cost of equity in commercial banks. 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 the cost of equity in Nepalese commercial banks. Specifically, it examines the relationship of board independence, institutional ownership, female director, audit committee size, board size, government ownership and number of meeting with corporate governance on the cost of equity in Nepalese commercial banks.

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 commercial banks for the period of 2015/16 to 2021/22, leading to a total of 105 respondents. The study employed stratified sampling method. The main sources of data include Banking and Financial Statistics published by Nepal Rastra Bank and annual report of respective banks. Table 1 shows the list of commercial banks for the study along with the study period and number of observations.

Table 1

List of commercial banks selected for the study along with the study period and number of observations

S. N.	Name of commercial banks	Study period	Observations
1	Himalayan Bank Limited	2015/16-2021/22	7
2	Nepal SBI Bank Limited	2015/16-2021/22	7
3	Prime Commercial Bank Limited	2015/16-2021/22	7
4	Sanima Bank Limited	2015/16-2021/22	7
5	Machhapuchchhre Bank Limited	2015/16-2021/22	7
6	NIC Asia Bank Limited	2015/16-2021/22	7
7	Nepal Bank Limited	2015/16-2021/22	7
8	Agriculture Development Bank Limited	2015/16-2021/22	7
9	NMB Bank Limited	2015/16-2021/22	7
10	Siddhartha Bank Limited	2015/16-2021/22	7
11	Sunrise Bank Limited	2015/16-2021/22	7
12	Standard Chartered Bank Nepal	2015/16-2021/22	7
13	Nabil Bank Limited	2015/16-2021/22	7
14	Rastriya Banijya Bank Limited	2015/16-2021/22	7
15	Everest Bank Limited	2015/16-2021/22	7
Total number of observations			**105**

Thus, the study is based on 105 observations.

The model

The model used in this study assumes that corporate governance depends upon cost of equity. The dependent variables selected for the study are stock dividend and cash dividend. Similarly, the selected independent variables are board independence, institutional ownership, female directors, audit committee size, board size, government ownership and number of meetings. Therefore, the model takes the following form:

$$SD_{it} = \alpha + \beta_1 BI_{it} + \beta_2 IO_{it} + \beta_3 FD_{it} + \beta_4 ACS_{it} + \beta_5 BS_{it} + \beta_6 GQ_{it} + \beta_7 NM_{it} + e_{it}$$

$$CD_{it} = \alpha + \beta_1 BI_{it} + \beta_2 IO_{it} + \beta_3 FD_{it} + \beta_4 ACS_{it} + \beta_5 BS_{it} + \beta_6 GQ_{it} + \beta_7 NM_{it} + e_{it}$$

Where,

SD = Stock dividend as measured by the divide the annual dividend by the current stock price, in percentage.

CD = Cash dividend as measured by the product of dividend per share and number of shares held by the shareholder, in percentage.

BI = Board independence is defined as the number of independent directors in the board.

IO = Institutional ownership as measured by the shares held by entities, in percentage.

FD = Female director as measured by number of female directors in the board of directors.

ACS = Audit committee size is defined as the number of audit committee member.

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

GO = Government ownership as measured by the shares owned by government, in percentage.

NM = Number of meeting is defined as the meeting held in a year.

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

Board independence

Anwar *et al.* (2019) examined the corporate governance and cost of equity: An evidence from Asian countries. The study found that there is a positive relationship between board independence and cost of equity. Similarly, Hassan *et al.* (2018) revealed that board independence has a statistically significant impact on cost of equity capital. Likewise, Nosheen and Sajjad (2018) revealed that board independence has a positive impact on cost of equity. However, Dao *et al.* (2013) showed that board independence has a negative impact on cost of equity. Based on it, this study develops the following hypothesis:

H_1: There is a positive relationship between board independence and cost of equity.

Institutional ownership

Institutional ownership refers to stock that is held by investment firms, funds, and other large entities rather than individual. Handayani *et al.* (2018) examined the effect of profitability, institutional ownership on the value of the company with dividend policy as a meditation. The study found that there is a positive relationship between institutional ownership and cost of equity. Similarly, Dalvi and Kadkhodayi (2013) showed that institutional ownership has a positive impact on cost of equity. Likewise, Ilmas *et al.* (2018) revealed that there is a positive relationship between institutional ownership and cost of equity. Based on it, this study develops the following hypothesis:

H_2: There is a positive relationship between institutional ownership and cost of equity.

Female director

Sarang *et al.* (2022) examined the board gender diversity and the cost of equity. The study found that female director has a positive and significant impact on cost of equity. Similarly, Ali (2019) analyzed the impact of corporate governance on the cost of equity: An evidence from cement sector of Pakistan. The study found that there is a positive and significant relationship between female director and cost of equity. Likewise, Nguyen and Faff (2007) revealed that gender diversity promotes shareholders' value as the presence of women directors is associated with higher firm value. Further, Noguera (2020) found that women directors' presence renders a modest positive effect on capital structure. Based on it, this study develops the following hypothesis:

H_3: There is a positive relationship between female director and cost of equity.

Audit committee size

Moss (2016) examined the impact of corporate governance and earnings management practices on cost of equity capital. The study found that audit committee size has a positive association with stock returns. Similarly, Thiruvadi (2019) found that audit committee size has a positive association cost of equity. Likewise, Fakhari and Rezaei (2017) revealed that there is a positive relationship between audit committee size and cost of equity. Further, Khemakhem and Naciri (2015) assessed the impact of board size and audit committee characteristics on firms' cost of equity capital. The study found that audit committee size has a positive impact on firms' cost of equity. Azizah (2020) revealed that the nature and quality of the audit committee are important factors influencing cost of equity. However, Hossain and TohidulAlam (2019) revealed that audit committee is negatively related to cost of equity. Likewise, Poudel and Hovey (2012) showed that bigger audit committee size led to better efficiency in the commercial banks. Based on it, this study develops the following hypothesis.

H_4: There is a positive relationship between audit committee size and cost of equity.

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). Anwar *et al.* (2019) examined the corporate governance and cost of equity: An evidence from Asian countries. The study revealed that board size has a negative impact on cost of equity. Similarly, Ayub (2018) showed that board size has a negative impact on cost of equity. Likewise, Yang *et al.* (2019) assessed the impact of corporate governance on the cost of equity. The study found that board size has a negative and insignificant impact on cost of equity. Based on it, this study develops the following hypothesis:

H_5: There is a negative relationship between board size and cost of equity.

Government ownership

Rofiqoh (2019) examined the controlling ownership's expropriation through real earnings management and its' impact on cost of equity capital. The study showed that there is a negative relationship between government ownership and cost of equity. Similarly, Hussein (2020) assessed the impact of cost of capital, operating profits, and invested capital on the economic value added in the materials' sector in the Egyptian market. The study stated that presence of government ownership has a negative impact on cost of equity. Likewise, Agha and Eulaiwi (2020) revealed that government ownership has a negative impact on cost of equity. Further, Paskelian (2018) found that there is a there is a negative relationship between government ownership and cost of equity. Based on it, this study develops the following hypothesis:

H_6: There is a negative relationship between government ownership and cost of equity.

Number of meetings

Number of meeting refers to the meeting of directors of the company. Number of 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). Number of meetings is an important aspect of good governance (Vafeas and Theodorou, 1998). The attendance level of the board of director meeting significantly improves the company performance (Agung and Ulupui, 2019). Brick and Chidambaran (2010) found that board activity has a positive impact on capital structure. Moreover, Ntim and Osei (2011) revealed that more meeting time of the board encourages a firm to increase the cost of the equity. The study also concluded that there is a positive and a significant relationship between number of meeting and stock return. Based on it, this study develops the following hypothesis:

H_7: There is a positive relationship between number of meeting and cost of

equity.

3. Results and discussions

Descriptive statistics

Table 2 represents the descriptive statistics of selected dependent and independent variables during the period 2015/16 to 2021/22.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 15 Nepalese commercial banks for the study period of 2015/16 to 2021/22. The dependent variables are SD (Stock dividend as measured by the divide the annual dividend by the current stock price, in percentage), CD (Cash dividend as measured by the product of dividend per share and number of shares held by the shareholder, in percentage). The independent variables are BI (Board independence is defined as the number of independent directors in the board), IO (Institutional ownership as measured by the shares held by entities, in percentage), FD (Female director as measured by number of female directors in the board of directors), ACS (Audit committee size is defined as the number of audit committee member), BS (Board size as measured by the total number of directors on the board), GO (Government ownership as measured by the shares owned by government, in percentage), and NM (Number of meeting is defined as the meeting held in a year).

Variables	Minimum	Maximum	Mean	S.D.
SD	5.15	20.86	27.92	10.54
CD	1.84	12.95	45.93	19.67
BI	0.00	1	0.81	0.39
IO	0.00	98.00	48.537	30.991
FD	0.00	2.00	0.76	0.54
ACS	2.00	6.00	3.10	0.57
BS	3.00	9.00	5.66	1.64
GO	9.87	35.57	16.92	68.63
NM	1.00	36.00	13.11	7.28

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 commercial banks for the study period of 2015/16 to 2021/22. The dependent variables are SD (Stock dividend as measured by the divide the annual dividend by the current stock price, in percentage), CD (Cash dividend as measured by the product of dividend per share and number of shares held by the shareholder, in percentage). The independent variables are BI (Board independence is defined as the number of independent directors in the board), IO (Institutional ownership as measured by the shares held by entities, in percentage), FD (Female director as measured by number of female directors in the board of directors), ACS (Audit committee size is defined as the number of audit committee member), BS (Board size as measured by the total number of directors on the board), GO (Government ownership as measured by the shares owned by government, in percentage), and NM (Number of meeting is defined as the meeting held in a year).

Variables	SD	CD	BI	IO	FD	ACS	BS	GO	NM
SD	1								
CD	0.054	1							
BI	-0.211*	-0.167*	1						
IO	0.033	0.060	0.202*	1					
FD	0.148	0.070	0.176*	0.152	1				
ACS	0.282**	0.049	-0.060	-0.066	-0.041	1			
BS	-0.097	-0.291**	-0.347**	0.131	0.011	-0.106	1		
GO	-0.076	-0.018	0.018	0.026	0.302**	-0.022	0.117	1	
NM	0.059	0.012	0.033	0.211*	0.081	0.134	0.020	0.197*	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 independence has a negative relationship with stock dividend. It indicates that increase in number of independent directors on the board leads to decrease in stock dividend. Similarly, institutional ownership has a positive relationship with stock dividend. It indicates that higher the number of shares held by the entities, higher would be the stock dividend. Likewise, female board of director has a positive relationship with stock dividend. It indicates that presence of female director in the board leads to increase in stock dividend. Further, audit committee size has a positive relationship with stock dividend. It indicates that increase in audit committee members leads to increase in stock dividend. In addition, board size has a negative relationship with stock dividend. It indicates that higher the board size, lower would be the stock dividend. Likewise, government ownership has a negative relationship with stock dividend. It indicates that higher the government ownership, lower would be the stock dividend. Moreover, number of meeting has a positive relationship with stock dividend. It indicates that increase in the number of board meetings leads to increase in stock dividend.

Similarly, board independence has a negative relationship with cash

dividend. It indicates that increase in number of independent directors on the board leads to decrease in cash dividend. Similarly, institutional ownership has a positive relationship with cash dividend. It indicates that higher the number of shares held by the entities, higher would be the cash dividend. Likewise, female board of director has a positive relationship with cash dividend. It indicates that presence of female director in the board leads to increase in cash dividend. Further, audit committee size has a positive relationship with cash dividend. It indicates that increase in audit committee members leads to increase in cash dividend. In addition, board size has a negative relationship with cash dividend. It indicates that higher the board size, lower would be the cash dividend. Likewise, government ownership has a negative relationship with cash dividend. It indicates that higher the government ownership, lower would be the cash dividend. Moreover, number of meeting has a positive relationship with cash dividend. It indicates that increase in the number of board meetings leads to increase in cash dividend.

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 independence, institutional ownership, female directors, audit committee size, board size, government ownership and number of meetings on stock dividend.

Table 4

Estimated regression results of board independence, institutional ownership, female directors, audit committee size, board size, government ownership and number of meetings on stock dividend

The results are based on panel data of 15 Nepalese commercial banks with 105 observations for the period of 2015/16 to 2021/22 by using the linear regression model and the model is $SD_{it} = \alpha + \beta_1 BI_{it} + \beta_2 IO_{it} + \beta_3 FD_{it} + \beta_4 ACS_{it} + \beta_5 BS_{it} + \beta_6 GQ_{it} + \beta_7 NM_{it} + e_{it}$ where, the dependent variable is SD (Stock dividend as measured by the divide the annual dividend by the current stock price, in percentage). The independent variables are BI (Board independence is defined as the number of independent directors in the board), IO (Institutional ownership as measured by the shares held by entities, in percentage), FD (Female director as measured by number of female directors in the board of directors), ACS (Audit committee size is defined as the number of audit committee member), BS (Board size as measured by the total number of directors on the board), GO (Government ownership as measured by the shares owned by government, in percentage), and NM (Number of meeting is defined as the meeting held in a year).

Model	Intercept	Regression coefficients of							Adj. R_bar^2	SEE	F-value
		BI	IO	FD	ACS	BS	GO	NM			
1	0.185 (1.916)	-0.015 (0.885)							0.020	0.316	0.783
2	0.134 (0.900)		0.078 (1.989)*						0.070	0.316	0.044
3	0.091 (1.469)			0.015 (0.212)					0.007	0.316	0.045
4	0.118 (2.116)*				0.070 (1.962)*				0.070	0.316	0.091
5	0.899 (4.224)**					-0.086 (3.767)**			0.080	0.301	14.189
6	0.095 (2.205)*						-0.001 (0.255)		0.070	0.316	0.065
7	0.155 (3.362)**							0.068 (1.376)	0.060	0.314	1.894
8	0.225 (1.247)	-0.015 (0.895)	0.012 (2.258)*						0.090	0.317	0.422
9	0.227 (1.079)	-0.015 (0.874)	0.012 (2.256)*	0.002 (0.021)					0.016	0.318	0.280
10	0.230 (1.088)	-0.014 (0.844)	0.011 (0.227)	0.003 (0.039)	0.001 (2.258)*				0.023	0.319	0.225
11	1.156 (3.806)**	-0.026 (1.569)	0.018 (2.387)*	0.031 (0.444)	0.001 (0.289)	-0.097 (4.052)**			0.083	0.302	3.484
12	1.157 (3.797)**	-0.028 (1.646)	0.020 (1.424)	0.030 (0.426)	0.001 (2.332)*	-0.097 (4.037)**	-0.001 (0.516)		0.078	0.303	2.932
13	1.151 (3.777)**	-0.027 (1.550)	0.008 (1.157)	0.005 (0.063)	0.002 (2.500)*	-0.095 (3.946)**	-0.001 (0.354)	0.053 (0.983)	0.078	0.303	2.651

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. Stock dividend is the dependent variable.

The table 4 shows that the beta coefficients for board independence are negative with stock dividend. It indicates that board independence has a negative impact on stock dividend. This finding is not similar to the findings of Nosheen and Sajjad (2018). Similarly, the beta coefficients for institutional ownership are positive with stock dividend. It indicates that institutional ownership has a positive impact on stock dividend. This finding is consistent with the finding of Handayani *et al.* (2018). Likewise, the beta coefficients for female director are positive with stock dividend. It indicates that female director has a positive impact on stock dividend. This finding is consistent with the finding of Ali (2019). Further, the beta coefficients for audit committee size are positive with stock dividend. It indicates that audit committee size has a positive impact on stock dividend. This finding is similar to the findings of Thiruvadi (2019). In addition, the beta coefficients for board size are negative with stock dividend. It indicates that board size has a negative impact on stock dividend. This finding is similar to the finding of Ayub (2018). Likewise, the beta coefficients for government ownership are negative with stock dividend. It indicates that government ownership has a negative impact on stock dividend. This finding is similar to the findings of Rofiqoh (2019). Furthermore, the beta coefficients for number of meeting are positive with stock dividend. It indicating that number of meeting has a positive impact on stock dividend. This finding is consistent with the findings

of Ntim and Osei (2011).

Table 5 shows the estimated regression results of board independence, institutional ownership, female directors, audit committee size, board size, government ownership and number of meetings on cash dividend.

Table 5

Estimated regression results of board independence, institutional ownership, female directors, audit committee size, board size, government ownership and number of meetings on cash dividend

The results are based on panel data of 15 Nepalese commercial banks with 105 observations for the period of 2015/16 to 2021/22 by using the linear regression model and the model is $CD_{it} = \alpha + \beta_1 BI_{it} + \beta_2 IO_{it} + \beta_3 FD_{it} + \beta_4 ACS_{it} + \beta_5 BS_{it} + \beta_6 GQ_{it} + \beta_7 NM_{it} + e_{it}$ where, the dependent variable is CD (Cash dividend as measured by the product of dividend per share and number of shares held by the shareholder, in percentage). The independent variables are BI (Board independence is defined as the number of independent directors in the board), IO (Institutional ownership as measured by the shares held by entities, in percentage), FD (Female director as measured by number of female directors in the board of directors), ACS (Audit committee size is defined as the number of audit committee member), BS (Board size as measured by the total number of directors on the board), GO (Government ownership as measured by the shares owned by government, in percentage), and NM (Number of meeting is defined as the meeting held in a year).

Model	Intercept	Regression coefficients of							Adj. R_bar^2	SEE	F-value
		BI	IO	FD	ACS	BS	GO	NM			
1	0.129 (1.153)	-0.013 (0.696)							0.040	0.360	0.485
2	0.227 (1.326)		0.008 (0.140)						0.070	0.364	0.020
3	0.178 (2.492)*			0.031 (3.391)**					0.060	0.364	0.153
4	0.065 (1.037)				0.011 (2.520)*				0.030	0.356	6.349
5	-0.074 (0.289)					-0.030 (4.090)**			0.010	0.363	1.188
6	0.143 (2.921)**						-0.004 (1.583)		0.010	0.361	2.506
7	0.193 (3.626)**							0.013 (0.235)	0.070	0.364	0.055
8	0.147 (0.706)	-0.013 (0.687)	0.006 (0.103)						0.010	0.365	0.246
9	0.080 (0.331)	-0.015 (0.788)	0.000 (0.002)	0.045 (3.538)**					0.016	0.366	0.259
10	0.046 (0.194)	-0.011 (0.585)	0.014 (0.256)	0.002 (2.023)*	0.011 (2.425)*				0.010	0.359	1.672
11	0.188 (0.520)	-0.014 (0.723)	0.012 (0.225)	0.009 (1.109)	0.010 (2.280)*	-0.024 (2.860)**			0.010	0.360	1.483
12	0.186 (0.517)	-0.004 (0.220)	0.019 (0.356)	0.014 (2.165)**	0.011 (2.434)*	-0.025 (2.879)**	-0.004 (1.691)		0.030	0.357	1.730
13	0.185 (0.513)	-0.004 (0.208)	0.021 (0.371)	0.011 (1.118)	0.011 (2.368)*	-0.025 (3.865)**	-0.004 (1.680)	0.007 (0.108)	0.020	0.359	1.473

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. Cash dividend is the dependent variable.

The table 5 shows that the beta coefficients for board independence are negative with cash dividend. It indicates that board independence has a negative impact on cash dividend. This finding is not similar to the findings of Anwar *et al.* (2019). Similarly, the beta coefficients for institutional ownership are positive with cash dividend. It indicates that institutional ownership has a positive impact on cash dividend. This finding is consistent with the finding of Dalvi and Kadkhodayi (2013). Likewise, the beta coefficients for female director are positive with cash dividend. It indicates that female director has a positive impact on cash dividend. This finding is consistent with the finding of Noguera (2020). Further, the beta coefficients for audit committee size are positive with cash dividend. It indicates that audit committee size has a positive impact on cash dividend. This finding is similar to the findings of Fakhari and Rezaei (2017). In addition, the beta coefficients for board size are negative with cash dividend. It indicates that board size has a negative impact on cash dividend. This finding is similar to the finding of Yang *et al.* (2019). Likewise, the beta coefficients for government ownership are negative with cash dividend. It indicates that government ownership has a negative impact on cash dividend. This finding is similar to the findings of Agha and Eulaiwi (2020). Furthermore, the beta coefficients for number of meeting are positive with cash dividend. It indicating that number of meeting has a positive impact on cash dividend. This finding is consistent with the findings of Agung and Ulupui (2019).

4. Summary and conclusion

Corporate governance is a crucial aspect of the banking industry, ensuring the stability, transparency, and accountability of commercial banks. In Nepal, the banking industry is crucial to the growth and development of the economy since it provides financial intermediation and encourages investment. Effective corporate governance frameworks have become more and more necessary as the industry has developed over time. The guiding principles of corporate governance in Nepalese commercial banks are openness, responsibility, and good management.

The study attempts to examine the impact of corporate governance on the cost of equity in Nepalese commercial banks. This study is based on the secondary data gathered from 15 Nepalese commercial banks for the study period from 2015/16 to 2021/22.

The major conclusion of this study is that board independence has a negative relationship with stock dividend and cash dividend. It indicates that

increase in number of independent directors on the board leads to decrease in stock dividend and cash dividend. Similarly, institutional ownership has a positive relationship with stock dividend and cash dividend. It indicates that higher the number of shares held by the entities, higher would be the stock dividend and cash dividend. Likewise, female board of director has a positive relationship with stock dividend and cash dividend. It indicates that presence of female director in the board leads to increase in stock dividend and cash dividend. Further, audit committee size has a positive relationship with stock dividend and cash dividend. It indicates that increase in audit committee members leads to increase in stock dividend and cash dividend. In addition, board size has a negative relationship with stock dividend and cash dividend. It indicates that higher the board size, lower would be the stock dividend and cash dividend. Likewise, government ownership has a negative relationship with stock dividend and cash dividend. It indicates that higher the government ownership, lower would be the stock dividend and cash dividend. Moreover, number of meeting has a positive relationship with stock dividend and cash dividend. It indicates that increase in the number of board meetings leads to increase in stock dividend and cash dividend. Likewise, the study also concluded that institutional ownership followed by audit committee size is the most influencing factor that explains the changes in the stock dividend in the context of Nepalese commercial banks. Similarly, the study also concluded that female directors followed by audit committee size is the most influencing factor that explains the changes in cash dividend in the context of Nepalese commercial banks.

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