

## Board Attributes and Foreign Shareholdings in Listed Firms in Nepal Stock Exchange

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### Abstract

This study examines the relationship between board attributes and foreign shareholdings in Nepal stock exchange. Return on equity, return on assets and foreign shareholding are selected as the dependent variables. Similarly, board size, board meeting, board diversity, foreign ownership, board independence and audit committee are selected as the independent variables. The study is based on secondary data of 13 commercial banks with 104 observations for the period from 2015/16 to 2022/23. The data were collected from Banking and Financial statistics published by Nepal Rastra bank and the annual reports of respective banks. The correlation coefficients and regression models are estimated to test the significance and importance of corporate governance on the potential of bankruptcy in Nepalese commercial banks.

The study revealed that audit committee has a positive impact on return on assets and return on equity. It means that increase in audit committee leads to increase in return on assets and return on equity. Likewise, audit committee has a negative impact on foreign shareholder. It means that increase in audit committee leads to decrease in foreign shareholder. Likewise, board size has a positive impact on return on assets and return on equity. It means that increase in board size leads to increase in return on assets and return on equity. Likewise, board size has a negative impact on foreign shareholder. It means that increase in board size leads to decrease in foreign shareholder. Furthermore, board diversity has a negative impact on return on assets and return on equity. It means that increase in board diversity leads to decrease in return on assets and return on equity. Likewise, board diversity has a positive impact on foreign shareholder. It means that increase in board diversity leads to increase in foreign shareholder. Similarly, board meeting has a negative impact on return on assets and return on equity. It means that increase in board meeting leads to decrease in return on assets and return on equity. Likewise, board meeting has a positive impact on foreign shareholder. It means that increase in board meeting leads to increase in foreign shareholder. Similarly, foreign ownership has a positive impact on return on equity. It indicates that increase in foreign ownership leads to increase in return on equity. Likewise, foreign ownership has a negative impact on return on assets and foreign shareholder. It indicates that increase in foreign ownership leads to decrease return on assets and foreign shareholder. Moreover, this study showed board independence has a negative impact on return on equity. It means that increase in board independence leads to decrease in return on equity. Likewise, board independence has a positive impact on return on assets and foreign shareholder. It shows that higher the board independence, higher would be return on assets and foreign shareholder.

*Keywords:* return on assets, return on equity, foreign shareholder, audit committee, board size, board meeting, board diversity board independence, foreign ownership

### 1. Introduction

Corporate governance is one of the key factors in corporate performance in the entire economy (Assidi, 2023). Corporate governance is essential in maintaining and improving public confidence in the banking system. It ensures that banks manage their assets and liabilities responsibly, demonstrating their commitment to depositors, shareholders, and other stakeholders. Given the competition, high regulation, agency problems, and high

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information asymmetry in the banking sector, there is a heightened concern about corporate governance (Nworji *et al.*, 2011). Ayorinde *et al.* (2012) stated that the corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate performance. Corporate governance therefore refers to the processes and structures by which the business and affairs of institutions are directed and managed in order to improve long term shareholders' value by enhancing corporate performance and accountability while taking into account the interest of other stakeholders. Good corporate governance is considered a building block of success for microfinance institutions (MFIs) as it is presumed to help them in achieving their social and financial goals (Iqbal *et al.*, 2019). Board composition and board activities as represented by board meetings and its intensity are recognized as a mean to enhance the monitoring activity by board members and reflect on firm performance (Jensen, 1993). The intensity and frequency of board meetings is a major tool to measure the effectiveness of monitoring by the board of directors (Lipton and Lorsch, 1992). Board meetings are an important feature of the supervisory function of the board of directors as it represents meetings convened to discuss outstanding issues in the company and potential solutions.

Masum *et al.* (2024) stated that there is a paradoxical finding representing that although the foreign shareholdings significantly influenced the corporate performance in the transitional economy the inclusion of foreign members on the board has no significant impact on corporate performance. Ali and Nasir (2018) examined the relationship between corporate governance mechanisms. The study provided evidence that board meeting or board activity has a significant relationship with financially distressed companies. According to Boudiab (2017), audit committee independence and meeting have a positive significant with the performance, but, the size of the audit committee has an insignificant relation with the performance. Lestari *et al.* (2021) examined the impact of extensible business reporting language (XBRL) adoption on financial reporting timeliness. The results revealed that extensible business reporting language adoption positively affects financial reporting timeliness. Grove *et al.* (2011) revealed that the frequency of board meetings is positively associated with financial performance. Rokhayati *et al.* (2022) showed that the capital structure has a significant effect on financial distress where the higher the company's leverage will cause financial distress. While female director, liquidity, and profitability have no significant effect on the company's financial distress.

Tarraf and Majeske (2008) investigated the relationship among corporate governance, risk taking and financial performance at bank holding companies (BHCs) during the financial crisis of 2008. The study found that there is no significant relationship between corporate governance and risk-taking level. Aebi *et al.* (2012) argued that banks have to significantly improve the quality and profile of their corporate governance and risk management function in order to be well prepared to face a financial crisis. Wilevy and Kurniasih (2021) examined the financial distress of registered banking in Indonesia Stock Exchange: Review of the good corporate governance aspect and banking performance. The study found that institutional, managerial, independent commissioner board composition, audit committee, capital adequacy ratio, and loan to deposit ratio have significant impact on financial distress. The study also found that non-performing loan has a positive and significant impact on economic desperation. Ramly and Basharahil (2021) investigated the bank governance and risk-taking: A survey of the literature. The study concluded that board of directors' features on the risk-taking of banks still requires more empirical investigation using alternative analytical methods

and alternative measures of risks of the banking industry. Pham and Duy (2019) analyzed the effects of corporate governance mechanisms on the financial leverage–profitability relation. The study found that board size, board independence and state ownership have positive and significant impact on the financial leverage. Liang investigated (2016) examined on financial ratios and corporate governance indicators in bankruptcy prediction. The study focuses on examining the discriminatory power obtained by combining different categories of financial ratios (FRs) and corporate governance indicators (CGIs) for bankruptcy prediction.

In the context of Nepal, Bhojraj and Sengupta (2003) observed that a firms' risk, institutional ownership enjoys lower bond yields and higher bond rating due to monitoring power of the institutional owners. Corporate governance reforms are of great significance for developing countries like Nepal, to gain a sustained effort to attract foreign direct investment and foreign portfolio management and to mobilize greater saving through capital market (Maskay, 2004). Pradhan (2014) revealed that there is positive impact of board size on return on equity and returns on equity which indicated that larger the number of board of directors, higher will return on equity and return on equity. Kumari *et al.* (2017) concluded that there is a negative impact of the audit committee on the bank performance. However, public shareholder has positive impact on return on equity which means larger the number of public shareholders, higher will be return on assets. Pandey (2006) showed that bigger board and audit committee size and lower .Frequency of board meeting and lower proportion of institutional ownership lead to better efficiency in the commercial banks. Singh *et al.* (2021) measured the effect of non-performing loan (NPL) of Nepalese conventional banks.).The result concluded that return on assets, bank size, GDP, and inflation have a significant effect on non-performing loan but car does not have a significant effect on the non-performing loan of banks. The study also concluded that, the GDP effect on non-performing loan in the study shows a positive and significant effect while most studies show a negative effect.

The above discussion shows that empirical evidences vary greatly across the studies on the board attributes and foreign shareholdings in listed firms in stock exchange. 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 main purpose of the study is to analyze the board attributes and foreign shareholdings in listed firms in Nepal stock exchange. Specifically, it examines the relationship of audit committee, board size, board meeting, board diversity, board independence, foreign ownership with return on assets, return on equity and foreign shareholdings Nepal stock exchange.

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 13 Nepalese commercial banks for the period of 2015/16 to 2022/23, leading to a total of 104 observations. The study employed convenience 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 study period and number of observations**

S.N.	Name of Commercial Banks	Study time Period	Observations
1	Agricultural Development Bank Limited	2015/16 – 2022/23	8
2	Everest Bank Limited	2015/16 – 2022/23	8
3	Nepal Bank Limited	2015/16 – 2022/23	8
4	Nepal SBI Bank Limited	2015/16 – 2022/23	8
5	Standard Chartered Bank Nepal Limited	2015/16 – 2022/23	8
6	Nabil Bank Limited	2015/16 – 2022/23	8
7	Citizen Bank Limited	2015/16 – 2022/23	8
8	Rastriya Banijya Bank Limited	2015/16 – 2022/23	8
9	Machhapuchchhre Bank Limited	2015/16 – 2022/23	8
10	Siddhartha Bank Limited	2015/16 – 2022/23	8
11	Sanima Bank Limited	2015/16 – 2022/23	8
12	Himalayan Bank Limited	2015/16 – 2022/23	8
13	NMB Bank Limited	2015/16 – 2022/23	8
<b>Total number of observations</b>			<b>104</b>

Source: Annual Reports

Thus, the study is based on 104 observations.

### *The model*

The model estimated in this study assumes that foreign shareholdings depends upon board attributes. The selected dependent variables are foreign shareholder, return on equity and return on assets. Similarly, the selected independent variables are audit committee, board size, board diversity, board meeting, foreign ownership and board independence. Therefore, the model takes the following from:

$$FS_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 BS_{it} + \beta_3 BD_{3it} + \beta_4 BM_{4it} + \beta_5 FO_{it} + \beta_6 BI_{it} + \varepsilon_{it}$$

$$ROA_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 BS_{it} + \beta_3 BD_{3it} + \beta_4 BM_{4it} + \beta_5 FO_{it} + \beta_6 BI_{it} + \varepsilon_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 BS_{it} + \beta_3 BD_{3it} + \beta_4 BM_{4it} + \beta_5 FO_{it} + \beta_6 BI_{it} + \varepsilon_{it}$$

Where,

FS = Foreign shareholder is a dummy variable which is measured as '0' if there is no foreign shareholder and '1' as if there is foreign shareholder, in percentage.

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

ROE = Return on equity as measured by the net profit of shareholder's equity, in percentage.

AC = Audit committee size as measured by the number of audit members, in numbers.

BS = Board size as measured by the number of board members, in numbers.

BD = Board diversity as measured by the number of female in the board as a director, in number.

BM = Board meeting as measured by the number of board meetings, in numbers.

FO = Foreign ownership as measured by the proportion of shares hold by public, in percentage

BI = Board independence as measured by the number of independent directors on the board, in numbers.

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

#### *Audit committee*

The role of audit committee in bank is to improve the quality of financial reporting, transparency and accountability that ultimately leads to improved financial performance of banks. Klein (2002) argued that larger the audit committee size, better will be the financial performance of the bank. Coleman-Kyereboah (2007) revealed a positive relationship between audit committee size and a firm's performance. Al-Matari *et al.* (2014) revealed a positive relationship between audit committee size and firm performance. Based on it, the study develops the following hypothesis:

H<sub>1</sub>: There is positive relationship between audit committee and foreign shareholder.

#### *Board size*

Board size can be defined as the number directors on the company. Manzanque *et al.* (2016) suggested that there is a positive relationship between board size and return on equity. In addition, Adams and Mehran (2003) found a significant positive relationship between board size and performance. Likewise, Yermack (1996) reported a positive relationship between board size and firm performance. Huther (1997) revealed that there is a significant positive relation between board size and profitability in a sample of small and middle size firms. Based on it, the study develops the following hypothesis:

H<sub>2</sub>: There is a positive relationship between board size and foreign shareholder.

#### *Board diversity*

Gender diversity in management and on boards has become a subject of empirical studies, and it is also an important indicator for good governance. Board diversity can also promote more effective global relationships and increase board independence because people of different gender, ethnicity or cultural backgrounds might ask questions that would not come from directors with more traditional backgrounds (Arfken *et al.*, 2004). Further, Brennan and McCafferty (1997) concluded that female directors can increase firm value for two reasons: women are not part of the old-boys network, which allows them to be more independent; and they have better understanding of consumer behavior, their needs and the opportunities to meet those needs. Adams and Ferreira (2009) found a negative relationship between the proportion of female directors and Tobin's Q. Similarly, Ahern and Dittmar (2012) found that there is a negative association between female directors and firm performance. Based on it, the study develops the following hypothesis:

H<sub>3</sub>: There is negative relationship between board diversity and foreign shareholder.

#### *Board meeting*

Brédart (2014) reported a negative relationship between board meeting and firm performance. Likewise, Ali and Nasir (2018) found a significant negative relationship between board meeting and performance. Similarly, Adams and Ferreira (2012) revealed that there is a significant positive relation between board meeting and foreign shareholder. Furthermore, Vafeas (1999) stated that there is negative relationship board meetings and performance. Based on it, this study develops the following hypothesis:

H<sub>4</sub>: There is a positive relationship between board meeting and foreign shareholdings.

#### *Board independence*

Ezzamel and Waston (1993) revealed that independent directors are appointment to accommodate investor performance of western style corporate governance. Hence, balanced composition of dependent and independent directors leads to better financial performance in banks. Millstein and MacAvoy (1998) showed that those companies with independent directors operated better and gained more significant returns than those without independent directors. Lu *et al.* (2009) found that independent director from any background have a positive influence on firm performance. Based on it, this study develops the following hypothesis:

H<sub>5</sub>: There is positive relationship between of board independence and foreign shareholdings.

#### *Foreign ownership*

Shih *et al.* (2000) revealed a clear evidence of diminishing relationship between the size of a firm and loss magnitude. Yegon *et al.* (2014) revealed a positive association between foreign ownership and firm performance. Burson (2007) revealed that firm size has a positive significant relationship with the return on equity (firm performance). Majumdar (1997) found that firm size has a positive impact on the performance. Ekwe and Duru (2012) argued that there is a strong positive relationship between firm size and financial performance. Based on it, the study develops the following hypothesis:

H<sub>6</sub>: There is positive relationship with firm size and foreign shareholdings.

### **3. Results and discussion**

#### *Descriptive statistics*

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2015/16-2022/23.

Table 2

#### **Descriptive statistics**

This table shows the descriptive statistics of dependent and independent variables of 13 Nepalese commercial banks for the study period 2015/16-2022/23. The dependent variables are ROE (Return on equity as measured by the net profit of shareholder's equity, in percentage), ROA (return on assets as measured by the ratio of net income to total assets, in percentage) and FS (Foreign shareholder is a dummy variable which is measured as '0' if there is no foreign shareholder and '1' as if there is foreign shareholder). The independent variables are BS (Board size as measured by the number of board members, in numbers), BM (Board meeting as measured by the number of board meetings, in numbers), AC (Audit committee as measured by the number of audit members), BD (Board diversity

as measured by the number of female in the board as a director in number). BI (Board independence as measured by the number of independent directors on the board, in numbers) and FO (Foreign ownership as measured by the proportion of shares hold by public, in percentage).

Variable	Minimum	Maximum	Mean	Std. Deviation
ROE	4.00	43	14.08	5.02
ROA	0.47	2.79	1.58	0.50
FS	0.00	1.00	0.38	0.48
AC	2.00	5.00	3.14	0.44
BS	5.00	11.00	6.90	1.186
BD	0.00	4.00	1.16	1.05
BM	5.00	35.00	19.26	7.46
FO	15.00	95.08	48.57	22.36
BI	0.00	2.00	0.91	0.31

Source: SPSS output

### *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 coefficients matrix**

This table shows the bivariate Pearson's correlation coefficients of dependent and independent variables of 13 Nepalese commercial banks for the study period 2015/16 to 2022/23. The dependent variables are ROE (Return on equity as measured by the net profit of shareholder's equity, in percentage) and FS (Foreign shareholder is a dummy variable which is measured as '0' if there is no foreign shareholder and '1' as if there is foreign shareholder). The independent variables are BS (Board size as measured by the number of board members, in numbers), BM (Board meeting as measured by the number of board meetings, in numbers), AC (Audit committee as measured by the number of audit members), BD (Board diversity as measured by the number of female in the board as a director in number), BI (Board independence as measured by the number of independent directors on the board, in numbers) and FO (Foreign ownership as measured by the proportion of shares hold by public, in percentage).

Variables	ROE	ROA	FS	AC	BS	BD	BM	FO	BI
ROE	1								
ROA	0.407**	1							
FS	0.143	0.148	1						
AC	0.098	0.001	-0.122	1					
BS	0.012	0.044	-0.17	0.081	1				
BD	-0.347**	-0.123	0.084	0.032	0.013	1			
BM	-0.125	-0.061	0.025	0.11	0.016	-0.364**	1		
FO	0.084	-0.009	-0.145	-0.076	-0.425**	-0.221*	0.044	1	
BI	-0.042	0.151	0.218*	0.02	0.081	0.189	-0.122	0.073	1

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

Table 3 reveals that audit committee has a positive relationship with return on assets. It means that increase in audit committee leads to increase in return on assets.



Likewise, board size has a positive relationship with return on assets. It means that increase in board size leads to increase in return on assets. Furthermore, board diversity has a negative relationship with return on assets. It means that increase in board diversity leads to decrease in return on assets. Similarly, board meeting has a negative relationship with return on assets. It means that increase in board meeting leads to decrease in return on assets. Similarly, foreign ownership has a negative relationship with return on assets. It indicates that increase in foreign ownership leads to decrease return on assets. Moreover, board independence has a positive relationship with return on assets. It shows that higher the board independence, higher would be return on assets.

Similarly, Audit committee has a positive relationship with return on equity. It means that increase in audit committee leads to increase in return on equity. Likewise, board size has a positive relationship with return on equity. It means that increase in board size leads to increase in return on equity. Furthermore, board diversity has a negative relationship with return on equity. It means that increase in board diversity leads to decrease in return on equity. Similarly, board meeting has a negative relationship with return on equity. It means that increase in board meeting leads to decrease in return on equity. Similarly, foreign ownership has a positive relationship with return on equity. It indicates that increase in foreign ownership leads to increase return on equity. Moreover, board independence has a positive relationship with return on equity. It shows that higher the board independence, higher would be return on equity.

Likewise, Audit committee has a negative relationship with foreign shareholder. It means that increase in audit committee leads to decrease in foreign shareholder. Likewise, board size has a negative relationship with foreign shareholder. It means that increase in board size leads to decrease in foreign shareholder. Furthermore, board diversity has a negative relationship with foreign shareholder. It means that increase in board diversity leads to decrease in foreign shareholder. Similarly, board meeting has a negative relationship with foreign shareholder. It means that increase in board meeting leads to decrease in foreign shareholder. Similarly, foreign ownership has a negative relationship with foreign shareholder. It indicates that increase in foreign ownership leads to decrease foreign shareholder. Moreover, board independence has a positive relationship with foreign shareholder. It shows that higher the board independence, higher would be foreign shareholder.

### *Regression analysis*

Having indicated the Pearson's correlation coefficients, the regression analysis has been carried out and results are presented in Table 4. More specifically, it shows the regression results of audit committee, board size, board diversity, board meeting, board independence and foreign ownership of Nepalese commercial banks.

Table 4

### **Estimated regression results of audit committee, board size, board diversity, board meeting, foreign ownership, and board independence on return on equity**

This result is based on panel data of 13 commercial banks with 104 observations for the period of 2015/16-2022/23 by using linear regression model. The model is  $ROE_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 BS_{it} + \beta_3 BD_{it} + \beta_4 BM_{it} + \beta_5 FO_{it} + \beta_6 BI_{it} + \varepsilon_{it}$ , where the dependent variable is ROE (Return on equity as measured by the net profit of shareholder's equity, in percentage). The independent variables are BS (Board size as measured by the number of board members, in numbers), BM (Board meeting as measured by the number of board meetings, in numbers), AC (Audit committee as measured by the number of audit members), BD (Board diversity as measured by the number of female in the board



as a director in number). BI (Board independence as measured by the number of independent directors on the board, in numbers) and FO (Foreign ownership as measured by the proportion of shares hold by public, in percentage).

Model	Intercept	Regression coefficients of						Adj. R_bar2	SEE	F-value
		AC	BS	BD	BM	FO	BI			
1	10.640 (3.499)**	1.094 (0.993)						0.028	5.030	0.986
2	10.640 (3.499)**		0.051 (0.120)					-0.010	5.050	0.014
3	10.640 (3.499)**			-2.206 (4.413)**				0.112	4.741	13.927
4	15.708 (11.492)**				-2.206 (4.413)**			0.006	5.014	1.630
5	13.165 (11.102)**					0.003 (0.136)		-0.003	5.036	0.720
6	14.686 (9.628)**						0.003 (0.136)	-0.008	5.050	0.177
7	10.533 (2.400)*	1.211 (1.159)	0.051 (0.120)					-0.010	5.054	0.489
8	11.994 (2.892)**	1.211 (1.159)	0.032 (0.081)	-2.206 (4.413)**				0.106	4.755	5.071
9	15.244 (3.726)**	1.630 (1.617)	0.047 (0.123)	-2.206 (4.413)**	-0.209 (3.219)			0.183	4.547	6.750
10	14.885 (3.045)**	1.635 (1.612)	0.071 (0.169)	-2.206 (4.413)**	-0.209 (3.198)**	0.003 (0.136)		0.174	4.570	5.350
11	14.867 (3.001)**	1.634 (1.603)	0.070 (0.162)	-2.206 (4.413)**	-0.209 (3.198)**	0.003 (0.128)	0.044 (0.029)	0.166	4.593	4.593

Notes:

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

Table 4 shows that the beta coefficients for audit committee size are positive with return on equity. It indicates that audit committee size has a positive impact on return on equity. This finding is consistent with the findings of Klein (2002). Similarly, the beta coefficients for board size are positive. It indicates that board size have a positive impact on return on equity. This finding is with return on equity consistent with the findings of Adams and Mehran (2003). Likewise, the beta coefficients for board diversity negative with return on equity. It indicates that board diversity have positive impact on return on equity. This finding is consistent with the findings of Ahern and Dittmar (2012). Further, the beta coefficients for board meeting are negative with return on equity. It indicates that board meeting have positive impact on return on equity. This finding is consistent with the findings of Adams and Ferreira (2012). In addition, the beta coefficients for foreign ownership are positive with return on equity. It indicates that foreign ownership has a positive impact on return on equity. This finding is consistent with the findings of Ekwe and Duru (2012). Moreover, the beta coefficients for board independence are negative with return on equity. It indicates that board independence has a positive impact on return on equity. This finding is consistent with the findings of Ezzamel and Waston (1993).

The regression results of audit committee, board size, board diversity, board meeting, foreign ownership, and board independence on return on assets of Nepalese commercial banks have been presented in Table 5.

Table 5

**Estimated regression results of audit committee, board size, board diversity, board meeting,**

**foreign ownership, and board independence on return on assets**

This result is based on panel data of 13 commercial banks with 104 observations for the period of 2015/16-2022/23 by using linear regression model. The model is  $ROA_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 BS_{it} + \beta_3 BD_{3it} + \beta_4 BM_{4it} + \beta_5 FO_{it} + \beta_6 BI_{it} + \varepsilon_{it}$ , where the dependent variable is ROA (return on assets as measured by the ratio of net income to total assets, in percentage). The independent variables are BS (Board size as measured by the number of board members, in numbers), BM (Board meeting as measured by the number of board meetings, in numbers), AC (Audit committee as measured by the number of audit members), BD (Board diversity as measured by the number of female in the board as a director in number), BI (Board independence as measured by the number of independent directors on the board, in numbers) and FO (Foreign ownership as measured by the proportion of shares hold by public, in percentage).

Model	Intercept	Regression coefficients of						Adj. R_bar2	SEE	F-value
		AC	BS	BD	BM	FO	BI			
1	1.587 (4.461)**	0.001 (0.006)						0.010	0.511	0.250
2	1.548 (4.908)**		0.019 (0.447)					0.008	0.510	0.200
3	1.658 (22.297)**			-0.085 (1.590)				0.005	0.507	1.821
4	1.669 (11.997)**				-0.004 (0.618)			0.006	0.510	0.538
5	1.600 (13.285)**					0.002 (0.095)		0.010	0.511	0.009
6	1.366 (8.948)**						0.002 (0.095)	0.013	0.505	2.378
7	1.468 (3.294)**	-0.003 (0.031)	0.019 (0.446)					0.018	0.513	0.099
8	1.520 (3.405)**	0.001 (0.008)	0.020 (0.460)	-0.085 (1.590)				0.012	0.012	0.512
9	1.653 (3.594)**	0.018 (0.158)	0.020 (0.460)	-0.085 (1.590)	-0.009 (1.168)			0.009	0.511	0.778
10	1.721 (3.12)**	0.017 (0.149)	0.016 (0.328)	-0.085 (1.590)	-0.009 (1.168)	-0.001 (0.229)		0.018	0.513	0.627
11	1.598 (2.917)**	0.012 (0.012)	0.003 (0.068)	0.003 (0.068)	-0.008 (1.077)	-0.001 (0.531)	0.002 (0.095)	0.003	0.508	1.050

Notes:

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

Table 5 shows that 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 Coleman-Kyereboah (2007). Similarly, the beta coefficients for board size are positive with return on assets. It indicates that board meetings have a positive impact on return on assets. Similarly, the beta coefficients for board size are positive with return on assets. It indicates that board size have a positive impact on return on assets. This finding is consistent with the findings of Huther (1997). Likewise, the beta coefficients for board diversity are negative with return on assets. It indicates that board diversity have positive impact on return on assets. This finding is consistent with the findings of Ahern and Dittmar (2012). Further, the beta coefficients for board meeting are negative with return on assets. It indicates that board meeting have positive impact on return on assets. This finding is consistent with the findings of Brédart (2014). In addition, the beta coefficients for foreign ownership are positive with return on assets. It indicates that foreign ownership has a positive impact on return on assets. This finding is consistent with the findings of Burson (2007). Moreover, the beta coefficients for board independence are negative with return on assets. It indicates that board independence has a positive impact on

return on assets. This finding is consistent with the findings of Ezzamel and Waston (1993).

The regression results of audit committee, board size, board diversity, board meeting, foreign ownership, and board independence on foreign shareholder of Nepalese commercial banks have been presented in Table 6.

Table 6

**Estimated regression results of audit committee, board size, board diversity, board meeting, foreign ownership, and board independence on foreign shareholding**

This result is based on panel data of 13 commercial banks with 104 observations for the period of 2015/16-2022/23 by using linear regression model. The model is  $FS_{it} = \beta_0 + \beta_1 AC_{it} + \beta_2 BS_{it} + \beta_3 BD_{it} + \beta_4 BM_{it} + \beta_5 FO_{it} + \beta_6 BI_{it} + \varepsilon_{it}$ , where the dependent variables is FS (Foreign shareholder is a dummy variable which is measured as '0' if there is no foreign shareholder and '1' as if there is foreign shareholder). The independent variables are BS (Board size as measured by the number of board members, in numbers), BM (Board meeting as measured by the number of board meetings, in numbers), AC (Audit committee as measured by the number of audit members), BD (Board diversity as measured by the number of female in the board as a director in number). BI (Board independence as measured by the number of independent directors on the board, in numbers) and FO (Foreign ownership as measured by the proportion of shares hold by public, in percentage)

Model	Intercept	Regression coefficients of						Adj. R_bar2	SEE	F-value
		AC	BS	BD	BM	FO	BI			
1	0.802 (2.366)**	-0.133 (1.244)						0.005	0.487	1.548
2	0.868 (3.083)**		-0.070 (1.742)					0.019	0.484	3.033
3	0.339 (4.729)**			0.039 (0.853)				-0.003	0.489	0.727
4	0.354 (2.641)**				0.002 (0.248)			-0.009	0.491	0.062
5	0.538 (4.703)**					-0.003 (1.476)		0.011	0.486	2.180
6	0.075 (0.520)						0.339 (2.258)*	0.038	0.479	5.101
7	1.216 (2.897)**	-0.119 (1.117)	-0.066 (1.648)					0.125	0.022	0.48
8	1.180 (2.796)**	-0.122 (1.144)	-0.067 (1.656)	0.042 (0.920)				0.020	0.483	1.710
9	1.094 (2.507)*	-0.133 (1.236)	-0.067 (1.662)	0.56 (1.149)	-0.006 (0.799)			0.017	0.484	1.437
10	1.748 (3.451)**	-0.149 (1.467)	-0.112 (2.563)**	0.002 (0.044)	0.005 (0.750)	-0.006 (2.390)*		0.061	0.473	2.346
11	1.566 (3.182)**	-0.149 (1.467)	-0.130 (3.063)**	0.002 (0.044)	0.006 (0.946)	-0.007 (2.946)**	0.339 (2.258)*	0.129	0.456	3.541

Notes:

- Figures in parenthesis are t-value
- The asterisk signs (\*\*) and (\*) indicate that the results are significant at one percent and five percent level respectively.
- Foreign shareholdings is the dependent variable.

Table 6 shows that the beta coefficients for audit committee size are negative with foreign shareholder. It indicates that audit committee size has a positive impact on foreign shareholder. This finding is consistent with the findings of Klein (2002). Similarly, the beta coefficients for board size are negative with foreign shareholder. It indicates that board size have a positive impact on foreign shareholder. This finding is consistent with the findings of Yermack (1996). Likewise, the beta coefficients for board diversity are positive with foreign shareholder. It indicates that board diversity have positive impact on foreign shareholder. This finding is consistent with the findings of Adams and Ferreira (2009). Further, the beta

coefficients for board meeting are positive with foreign shareholder. It indicates that board meeting have positive impact on n foreign shareholder. This finding is consistent with the findings of Ali and Nasir (2018). In addition, the beta coefficients for foreign ownership are negative with foreign shareholder. It indicates that foreign ownership has a positive impact on foreign shareholder. This finding is consistent with the findings of Yegon *et al.* (2014). Moreover, the beta coefficients for board independence are positive with foreign shareholder. It indicates that board independence has a positive impact on foreign shareholder. This finding is consistent with the findings of Lu *et al.* (2009).

#### 4. Summary and conclusion

Good corporate governance is considered a building block of success for microfinance institutions (MFIs) as it is presumed to help them in achieving their social and financial goals. Corporate governance is defined as the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholders value. Board composition and board activities as represented by board meetings and its intensity are recognized as a mean to enhance the monitoring activity by board members and reflect on firm performance.

This study attempts to analyze the relationship between corporate governance and liquidity risk in Nepalese commercial banks. The study is based on secondary data of 13 commercial banks with 104 observations for the period from 2015/16 to 2022/23.

The study showed that board diversity, board meeting and board independence have negative impact on return on equity. Similarly, board size, audit committee and foreign ownership have a positive impact on return on equity. The study showed that board diversity, board meeting and foreign ownership have negative impact on return on assets. Similarly, audit committee, board size and board independence have a positive impact on return on equity loan. The study showed that audit committee, board size and foreign ownership have negative impact on foreign shareholders. Similarly, board diversity, board meeting and board independence have a positive impact on return on equity. Likewise, the study concluded that board diversity followed by board independence is the most influencing factor that explains the changes in the return on equity of Nepalese commercial banks. Similarly, the study also concluded that board independence is the most influencing factor that explains the changes in return on equity in context of Nepalese commercial banks. Similarly, the study also concluded that foreign ownership is the most influencing factor that explains the changes in foreign shareholders in context of Nepalese commercial banks.

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