Impact of Corporate Governance and Financial Leverage on the Value of Nepalese Commercial Banks

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Abstract

The study examines the impact of corporate governance and financial leverage on the value of Nepalese commercial banks. Return on assets and market price per share are the dependent variables. The selected independent variables are board size, independent ownership, audit committee, debt to total assets, debt to total equity, institutional ownership and board diversity. The study is based on secondary data of 13 commercial banks with 104 observations for the study period from 2015/16 to 2022/23. The data were collected from Bank Supervision Report published by Nepal Rastra Bank (NRB), 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 and financial leverage on the value of Nepalese commercial banks.

The study showed that board size has a positive relationship with return on assets. It indicates that increase in board size leads to increase in the return on assets. On other hand, audit committee has a positive relationship with return on assets. It indicates that increase in number of audit committee leads to increase in the return on assets. Similarly, debt to assets ratio has a negative relationship with return on assets. It indicates that increase in debt to assets ratio leads to decrease in the return on assets. Similarly, institutional ownership has a negative relationship with return on assets. It indicates that increase in percentage of institutional ownership leads to decrease in the return on assets. Debt to total assets have a positive relationship with market price per share. It indicates that increase in ratio of debt to total assets, leads to increase the market price per share. Similarly, debt to total equity has positive relationship with market price per share and return on assets. It indicates that increase in debt to total assets ratio, leads to increase in market price per share and return on assets. Further, the institutional ownership has positive relationship with market price per share. It indicates that increase in percentage of institutional ownership leads to increase in market price per share. However, board size has a negative relationship with market price per share. It indicates that increase in board size leads to decrease in the market price per share and return on assets. Likewise, the number of independent directors have negative relationship with market price per share and return on assets. It indicates that increase in number of independent directors leads to decrease the market price per share and return on assets. Audit committee size has a negative relationship with market price per share. It indicates that increase in number of audit committee leads to decrease in the market price per share and return on assets.

Keywords: corporate governance, financial leverage, board size, audit committee, debt to total assets, debt to total equity, firm size, firm value

1. Introduction

Strong corporate governance increases transparency and reduces information asymmetry between management and shareholders. This can lead to better decision-making and improved investor confidence, thus enhancing firm value. Effective corporate governance mitigates agency problems by aligning the interests of management with those of shareholders, leading to decisions that enhance shareholder value. Corporate governance refers to the system of rules, practices, and processes by which a firm is directed

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and controlled. It involves balancing the interests of a company's stakeholders, including shareholders, management, customers, suppliers, financiers, government, and the community. The interplay between corporate governance and financial leverage is crucial in determining a firm's value. While good governance can enhance firm value directly and by optimizing leverage decisions, excessive or poorly managed leverage can detract from firm value despite potential tax benefits. The key is to achieve a balance where leverage is used as a tool to enhance value rather than a source of financial distress. Lean board size, moderate leverage, CEOs serving on various boards, high independence on audit committees, large firm size, young firms, and sustainable growth positively impact the firm performance. High leverage has been found to have an adverse impact on firms' profitability, especially in the wake of high interbank offered rates (Khan and Mahmood, 2023). Mertzanis *et al*. (2023) stated that corporate governance characteristics of firms are strongly associated with their degree of leverage. The studyy also showed that macro financial conditions, financial regulations, corporate governance enforcement and social conditions mitigate the impact of corporate governance on firms' financing decisions. Tekin *et al*. (2023) argued that board gender diversity and CEO ownership are positively related to the firm value, whereas board size and ownership concentration are negatively related.

Financial leverage represents a firm's financial framework which consists of the debt and equity used to finance the firm. Financial leverage in financial terms means the way firms finance their assets through the mixture of a company's debt (long-term and short-term), common equity, and preferred equity (Akintoye, 2008). Financial leverage has always been one of the main topics among the studies of finance. Financial leverage allows a greater potential return to the investors than otherwise would have been available, but the potential loss is also greater, if the investment becomes worthless, the loan principal and all accrued interest on the loan still need to be repaid. The optimal financial leverage structure implies that with the smallest amount of weighted average cost of capital there is the maximization of the worth of the organization. Although optimal financial leverage is a concept that has been researched severally, yet one cannot find any formula or theory that with certainty provides optimal financial leverage for an organization (Zeitun and Tian, 2007).

Corporate governance importance arises in modern corporations due to the separation of management and ownership control in the organizations. The interests of shareholders are conflicting with the interests of managers. The principal agent problem is reflected in the management and direction related problems due to the differential interests of firm's stakeholders. There is not a single definition of corporate governance rather it might be viewed from different angles. Mizruchi (1932) defined corporate governance as "allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labor market competition, organizational structure can all be thought of as institutions that affect the process through which quasi-rents are distributed Garvey and Swan (1994) asserted that governance determines how the firm's top decision makers (executives) actually administer such contracts. 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.

Oman (2001) defined corporate governance as a term refers to the private and public institutions that include laws, regulations and the business practices which governs the relationship between the corporate managers and the stakeholders. The Ministry of Finance,

Teen and Phan (2001) defined corporate governance as the processes and structure by which the business and affairs of the company are directed and managed, in order to enhance long term shareholder value through enhancing corporate performance and accountability, whilst taking into account the interests of other stakeholders. Good corporate governance therefore embodies both enterprise and accountability.

La Porta *et al.* (2002) argued corporate governance as a set of mechanisms through which outside investors (shareholders) protect themselves from inside investors (managers). The organization for economic cooperation and development provides another perspective by stating that "corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedure for making decisions on corporate affairs. Nguyen *et al.* (2015) suggested that firms with a large board are associated with CEO compensation that is sensitive to firm size, but not to firm performance. This incentive to accumulate assets is congruent with the fact that firms with a large board also exhibit lower operating performance and higher operating costs. Furthermore, we find that the effect of board size is stronger in small firms. Nguyen and Faff (2006) stated that as board size increases firm value declines, however at a decreasing rate suggesting that the relationship between board size and firm value is not strictly linear.

Mak and Kusnadi (2005) found a negative relationship between board size and firm value. The relationship between board size and firm value is the only relationship between corporate governance mechanisms and firm value. Ammanna *et al.* (2011) investigated the relationship between firm-level corporate governance and firm value. The study concluded that there is a strong and positive relationship between firm-level corporate governance and firm valuation. Similarly, Black *et al.* (2006) investigated the evidence on corporate governance as an important factor in explaining the market value of Korean public companies. The result indicated a positive and significant relationship between corporate governance and firm's value. However, Gupta *et al.* (2009) investigated the relationship between corporate governance and firms value an evidence from Canadian capital market. The study found insignificant association between the composite or subcategory corporate governance scores and the various measures of firm value.

Brown and Caylor (2006) investigated the relationship between corporate governance and firm value based on 51 firm-specific provisions representing both internal and external governance. The study found that only a small subset of provisions marketed by corporate governance data providers are related to firm valuation, and that both internal and external governance are linked to firm value. Similarly, Wang *et al.* (2016) revealed a negative relationship between corporate governance and firm valuation. The study also concluded that corporation governance have insignificant relationship with operating performance for top 500 firms in China. Likewise, Bauer *et al.* (2004) analyzed whether good corporate governance leads to higher common stock returns and enhances firm's value. The study showed a positive relationship between firm's value and corporate governance in the context of European firms.

According to Yermack (1996), the smaller board size is more efficient than the larger board size to obtain higher market valuation, return on equity (ROE), return on assets (ROA). Similarly, Dahya (2008) showed that smaller board is better for improving firm's

performance. Likewise, Hermalin and Weisbach (2003) found that an increase in board size has negative effect on market price of share. Ficici and Aybar (2012) explored the value implications of good corporate governance for a sample of 54 American Depositary Receipt (ADR) issuing emerging market firms (EMFs) from 9 countries. The study found that there is a significant correlation between corporate governance structures of ADR issuing EMFs and their market values and performances. Likewise, Iren and Bathala (2009) examined the relationship between corporate governance and firm valuation using a comprehensive data set from 25 countries. The results showed the existence of a positive and significant the station between corporate governance structure and firm valuation.

In the context of Nepal, Sherpa *et al.* (2016) examined the impact of corporate governance on the market valuation of banking and non-banking Nepalese firms. The study showed that board size and board composition have negative relationship with market price of share. Bhaukajee *et al.* (2016) examined the relationship between corporate governance and firms' market value. The study found positive impact of corporate governance practices on firms' market price per share. Pradhan and Upadhyay (2006) revealed that the company information, lack of profitability of the company, market operation system, governance practices and government policy regarding investment are the major causes of deficiency in Nepalese stock market.

The above discussion shows that empirical evidences vary greatly across the studies on the effect of financial leverage and corporate governance on the value of commercial banks. Though there is above-mentioned empirical evidence 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 this study is to examine the impact of corporate governance and financial leverage on the value of Nepalese commercial banks. Specifically, it examines the effect of board size, independent directors, Institutional ownership, debts to assets ratio, debts to equity ratio, board diversity and audit committee on return on assets and market price per share of 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 sections draws conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 13 commercial banks for the period from 2014/15-2022/23, 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. This study is based on descriptive as well as causal comparative research designs. Table 1 shows the list of commercial banks selected 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 the Bank	Study Period	Observations
1	Nepal Bank Limited	2015/16-2022/23	8
2	Rastriya Banijay Bank Limited	2015/16-2022/23	8
3	Citizens International Bank Limited	2015/16-2022/23	8
4	Agricultural Development Bank Limited	2015/16-2022/23	8
5	Everest Bank Limited	2015/16-2022/23	8
6	Himalayan Bank Limited	2015/16-2022/23	8
7	Sanima Bank Limited	2015/16-2022/23	8
8	Siddhartha Bank Limited	2015/16-2022/23	8
9	Standard Chartered Bank Nepal Limited	2015/16-2022/23	8
10	Prime Commercial Bank Limited	2015/16-2022/23	8
11	NMB Bank Limited	2015/16-2022/23	8
12	Nepal SBI Bank Limited	2015/16-2022/23	8
13	Machhapuchchhre Bank Limited	2015/16-2022/23	8
Total number of observations			**104**

Source: Annual Reports

Thus, the study is based on the 104 observations.

The Model

The models used in this study assumes that firm's value depends upon financial leverage and corporate governance. The dependent variables selected for the study are return on assets and market price per share. Similarly, the selected independent variables are board size, independent ownership, audit committee, debt to total assets, debt to total equity, institutional ownership and board diversity. Therefore, the model takes the following forms:

$$ROA_{it} = \beta_0 + \beta_1 BS + \beta_2 ID + \beta_3 AC + \beta_4 DTA + \beta_5 DE + \beta_6 IO + \beta_7 BD + e_{it}$$

$$MPS_{it} = \beta_0 + \beta_1 BS + \beta_2 ID + \beta_3 AC + \beta_4 DTA + \beta_5 DE + \beta_6 IO + \beta_7 BD + e_{it}$$

Where,

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

MPS = Market price per share which is equal to the market capitalization divided by total number of diluted shares outstanding.

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

ID = Independent director refers to a member of a board of directors who does not have a material relationship with a company

AC = audit committee as measured by the percentage of shares owned by the different institution, in percentage.

DTA = debt to total assets as measured by the amount of debt relative to assets, in percentage.

DE = debt to total equity as measured by the relative proportion of shareholder's equity and debt used to finance a company's assets, in percentage.

IO = institutional ownership as measured by the percentage of shares owned by the different

institution, in percentage.

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

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

Board size

A board of director is a group of persons elected by the shareholder of a corporation to govern and manage the affair of the company. Similarly, Mak and Kusnadi (2005) suggested that the negative relationship between board size and firm value transcends different corporate governance systems. A smaller board size may be less encumbered with bureaucratic problems and may be more functional. Smaller board may provide better financial reporting oversight. Singh and Davidson (2003) argued that smaller boards are better able to make timely decisions than large boards. Vigne *et al.* (2023) found that board size, independence and meetings negatively affect book-based performance measures and positively affect market-based performance measures. Based on it, the study develops the following hypothesis:

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

Audit committee

Audit committee is a committee of the board of directors responsible for oversight of the financial reporting process. It is argued that a larger committee has greater organizational status and authority, and a wider knowledge (Karamanou and Vafeas, 2005). Altin (2024) found that audit committee independence, expertise, size and affiliation with the big four have a significant and positive effect on firm performance, while audit committee meetings have a non-significant effect. Singhania and Panda (2024) stated a significant negative influences on firm performance have been demonstrated by the variables of audit committee meeting and board's independence. Based on it, the study develops the following hypothesis:

H_2: There is a positive relationship between audit committee and firm's value.

Debt to equity ratio

The leverage is a financial ratio indicating the relative proportion of stakeholders' equity and debt used to finance a company's assets. It is also known as risk, gearing or debt-to-equity ratio. Measures of financial leverage include debt to assets (Rajan and Zingales, 1995). The study showed the degree to which a business is utilizing borrowed money. Lestari (2023) revealed that firm value is influenced not only by the debt to equity ratio and firm size, but also by the mediating effect of return on assets in manufacturing companies listed on the Indonesian stock exchange. Jonathan and purwaningsih (2023) found that debt to equity ratio has a significant negative effect on firm value. Based on it, the study develops the following hypothesis:

H_3: There is negative relationship between debt to equity ratio and firm value.

Debt to assets ratio

Debt to assets ratio is a leverage ratio that defines the amount of debt relative to assets. Kester (1986) found a negative relationship between debt assets ratio and return on assets of the firm. Similarly, Rajan (1995) revealed that there is a significant negative

correlation between debt to assets ratio and return on assets of a firm. Graham *et al.* (2000) showed a negative relationship between debt to assets ratio and return on assets. Based on it, the study develops the following hypothesis:

H_4: There is a negative relationship between debt to assets ratio and firm value.

Board diversity

Board diversity is defined as the total number of female directors in the board. In a sample of US firms, Adam and Ferreira (2009) found that female directors have better attendance records than male directors. However, Gul *et al.* (2011) showed a positive relationship between board diversity and value of the firm. Similarly, Farrell and Hersch (2005) concluded a positive relationship between board diversity and firm value. Based on it, the study develops the following hypothesis:

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

Independent directors

Number of independent directors is defined as the number of outside director professional director in the board. Amer *et al.* (2014) stated that there is a positive relationship between independent directors and firms' value. Similarly, Zhua *et al*. (2016) found a positive relationship between independent directors and value of firm. Mishra (2023) showed that independent directors have a negative effect on firm innovation, measured as number of patents, but when there are high levels of gender and nationality diversity among such directors, this negative effect may be mitigated. Based on it, the study develops the following hypothesis.

H_6: There is a positive relation between independent directors and firm value.

Institutional ownership

Thanatawee (2014) stated that institutional investors provide effective monitoring roles, thereby increasing corporate governance and firm value. Clay (2002) found institutional shareholdings have a systematically positive effect on firm value. The relation between the shareholdings by institutional investors and firm value have produced mixed results. Navissi *et al.* (2006) studied that a linear relation exists between corporate value and institutional shareholdings. Based on it, the study develops the following hypothesis:

H_7: There is a positive effect of institutional ownership with firm value.

3. Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2015/16 to 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 of 2015/19 to 2022/23. Dependent variables are ROA (Return on assets as measured by the ratio of net income to total assets, in percentage) and MPS (Market price per share which is equal to the market capitalization divided by total number of diluted shares outstanding). The independent variables are BS (Board size as measured by the number of board members, in numbers), ID (Independent director refers to a member of a board of directors who does not have a material relationship with a company), AC (Audit committee as measured by the

percentage of shares owned by the different institution, in percentage), DTA (Debt to total assets as measured by the amount of debt relative to assets, in percentage), DE (Debt to total equity as measured by the relative proportion of shareholder's equity and debt used to finance a company's assets, in percentage), IO(Institutional ownership as measured by the percentage of shares owned by the different institution, in percentage) and BD (Board diversity as measured by the number of females in the board as a director, in numbers).

Variables	Minimum	Maximum	Mean	Std. Deviation
ROA	0.47	2.79	1.53	0.52
MPS	173.10	3600.00	532.10	526.96
BSZ	5.00	10.00	6.95	1.23
BD	0.00	2.00	0.65	0.57
ID	0.00	1.00	0.71	0.45
DTA	0.81	0.94	0.88	0.02
DE	0.21	0.99	0.86	0.10
IO	0.00	65.00	12.69	17.86
AC	3.00	5.00	3.10	0.36

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 between different variables used in the study. The correlation coefficients are based on the data from 13 banks for the period 2015/16 to 2022/23. Dependent variables are ROA (Return on assets as measured by the ratio of net income to total assets, in percentage) and MPS (Market price per share which is equal to the market capitalization divided by total number of diluted shares outstanding). The independent variables are BS (Board size as measured by the number of board members, in numbers), ID (Independent director refers to a member of a board of directors who does not have a material relationship with a company), AC (Audit committee as measured by the percentage of shares owned by the different institution, in percentage), DTA (Debt to total assets as measured by the amount of debt relative to assets, in percentage), DE (Debt to total equity as measured by the relative proportion of shareholder's equity and debt used to finance a company's assets, in percentage), IO(Institutional ownership as measured by the percentage of shares owned by the different institution, in percentage) and BD (Board diversity as measured by the number of females in the board as a director, in numbers).

Variables	ROA	MPS	BS	BD	ID	DTA	DE	IO	AC
ROA	1								
MPS	0.207*	1							
BS	0.050	-0.008	1						
BD	-0.046	-0.191	-0.120	1					
ID	-0.108	-0.284**	0.044	0.322**	1				
DTA	-0.391**	0.052	0.016	-0.203*	-0.118	1			
DE	0.031	0.089	0.082	-0.184	-0.168	0.109	1		
IO	-0.064	0.070	0.051	-0.246*	0.201*	0.151	-0.081	1	
AC	0.137	-0.103	0.054	-0.009	-0.048	-0.268**	-0.008	0.008	1

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

respectively.

Table 3 reveals that board size has a positive relationship with return on assets. It means that increase in board size leads to increase in return on assets. Similarly, board diversity has a negative relationship with return on assets. It shows that increase in board diversity leads to decrease in return on assets. In addition, proportion of independent directors has a negative relationship with return on assets indicating that increase in proportion of independent directors leads to decrease in return on assets. However, debt to total assets has a negative relationship with return on assets. It indicates that increase in debt to total assets leads to decrease in return on assets. The results show that debt to total equity has a positive relationship with return on assets indicating that increase in debt to total equity leads to increase in return on assets. Institutional ownership has a negative relationship with return on assets. It indicates that increase in institutional ownership leads to decrease in return on assets. The results show that audit committee has a positive relationship with return on assets indicating that increase in audit committee leads to increase in return on assets.

Similarly, board size has a negative relationship with market price per share. It means that increase in board size leads to decrease in market price per share. Similarly, board diversity has a negative relationship with market price per share. It shows that increase in board diversity leads to decrease in market price per share. In addition, proportion of independent directors has a negative relationship with market price per share indicating that increase in proportion of independent directors leads to decrease in market price per share. However, debt to total assets has a positive relationship with market price per share. It indicates that increase in debt to total assets leads to increase in market price per share. The results show that debt to total equity has a positive relationship with market price per share indicating that increase in debt to total equity leads to increase in market price per share. Institutional ownership has a negative relationship with market price per share. It indicates that increase in institutional ownership leads to decrease in market price per share. The results show that audit committee has a negative relationship with market price per share indicating that increase in audit committee leads to decrease in market price per share.

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 board size, board diversity, audit committee, debt to assets ratios, debt to equity ratio, institutional ownership and independent directors on return on assets of Nepalese commercial banks.

Table 4

Estimated regression results of board size, board diversity, audit committee, debt to assets ratios, debt to equity ratio, institutional ownership and independent directors on return on assets

The results are based on panel data of 13 Nepalese commercial banks with 104 observations for a period of 2014/15-2022/23 by using linear regression model. The model is $ROA_{it} = \beta_0 + \beta_1 BS + \beta_2 ID + \beta_3 AC + \beta_4 DTA + \beta_5 DE + \beta_6 IO + \beta_7 BD + e_{it}$, where 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), ID (Independent director refers to a member of a board of directors who does not have a material relationship with a company), AC (Audit committee as measured by the percentage of shares owned by the different institution, in percentage), DTA (Debt to total assets as measured by the amount of debt relative to assets, in percentage), DE (Debt to total equity as measured by the relative proportion of shareholder's equity and debt used to finance a company's assets, in percentage), IO(Institutional ownership as measured by the percentage of shares

owned by the different institution, in percentage) and BD (Board diversity as measured by the number of females in the board as a director, in numbers).

Model	Intercept	Regression coefficients of							Adj. R_bar2	SEE	F-value
		BS	BD	ID	DTA	DE	IO	AC			
1	1.380 (4.680) **	0.021 (0.510)							0.007	0.522	0.260
2	1.555 (19.85) **		-0.42 (0.46)						0.008	0.522	0.215
3	1.616 (17.001) **			-0.123 (1.095)					0.002	0.520	1.200
4	8.235 (5.258) **				-7.581 (4.285) **				0.144	0.481	18.360
5	1.391 (3.166)**					0.159 (0.314)			0.009	0.523	0.099
6	1.551 (24.642)**						-0.002 (0.647)		0.006	0.522	0.418
7	1.551 (24.642)**							0.019 (0.139)	0.009	0.518	1.938
8	1.418 (4.561)**	0.019 (0.456)	-0.037 (0.403)						0.016	0.525	0.210
9	1.458 (4.655)**	0.021 (0.545)	-0.004 (0.039)	-0.125 (1.035)					0.015	0.524	0.497
10	8.811 (5.394)**	0.021 (0.545)	-0.075 (0.840)	-0.153 (1.389)	-8.229 (4.572) **				0.154	0.479	5.672
11	8.691 (0.5212)	0.021 (0.545)	-0.071 (0.785)	-0.148 (1.325)	-8.229 (4.572) **	0.192 (0.401)			0.146	0.481	4.532
12	0.705 (5.174)**	0.021 (0.542)	-0.068 (0.710)	-0.151 (1.285)	-8.303 (4.515) **	0.197 (0.407)	0.000 (0.084)		0.131	0.483	3.740
13	8.579 (4.482)**	0.021 (0.530)	-0.068 (0.704)	-0.150 (1.262)	-8.303 (4.515) **	-8.303 (4.515) **	0.000 (0.084)	0.019 (0.139)	0.129	0.486	3.176

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 inconsistent with the findings of Mak and Kusnadi (2005). Furthermore, the beta coefficients for board diversity are negative with return on assets. It indicates that board diversity has a negative impact on return on assets. This findings are inconsistent with the findings of Gul *et al*. (2011). Similarly, the beta coefficient of independent directors are negative with return on assets. It indicated that independent directors has a negative impact on return on assets. This finding is inconsistent with the findings of Amer *et al*. (2014). The beta coefficient of debt to assets ratio are negative with return on assets. It indicated that debt to assets ratio has a negative impact on return on assets. This finding is consistent with the findings of Rajan and Zingales (1995). The beta coefficient of debt to equity ratio are positive with return on assets. It indicated that debt to equity ratio has a positive impact on return on assets. This finding is inconsistent with the findings of Rajan and Zingales (1995). The beta coefficient of Institutional ownership are negative with return on assets. It indicated that institutional ownership has a negative impact on return on assets. This finding is inconsistent with the findings of Thanatawee (2014). The beta coefficient of Audit committee are positive with return on assets. It indicated that Audit committee has a positive impact on return on assets. This finding is consistent with the findings of Karamanou and Vafeas (2005).

Table 5 presents the regression results of board size, board diversity, audit committee, debt to assets ratios, debt to equity ratio, institutional ownership and independent directors on

market price per share of Nepalese commercial banks.

Table 5

Estimated regression results of board size, board diversity, audit committee, debt to assets ratios, debt to equity ratio, institutional ownership and independent directors on market price per share

The results are based on panel data of 14 Nepalese commercial banks with 100 observations for a period of 2015 to 2023 by using linear regression model. The model is $MPS = \beta_0 + \beta_1 BS + \beta_2 ID + \beta_3 AC + \beta_4 DTA + \beta_5 DE + \beta_6 IO + \beta_7 BD + e$, where dependent variable is MPS (Market price per share which is equal to the market capitalization divided by total number of diluted shares outstanding). The independent variables are BS (Board size as measured by the number of board members, in numbers), ID (Independent director refers to a member of a board of directors who does not have a material relationship with a company), AC (Audit committee as measured by the percentage of shares owned by the different institution, in percentage), DTA (Debt to total assets as measured by the amount of debt relative to assets, in percentage), DE (Debt to total equity as measured by the relative proportion of shareholder's equity and debt used to finance a company's assets, in percentage), IO(Institutional ownership as measured by the percentage of shares owned by the different institution, in percentage) and BD (Board diversity as measured by the number of females in the board as a director, in numbers).

Model	Intercept	Regression coefficients of							Adj. R_bar2	SEE	F-value
		BS	BD	ID	DTA	DE	IO	AC			
1	555.667 (1.864)	-13.571 (0.323)							0.010	529.519	0.007
2	647.636 (8.332) **		-176.697 (1.969) *						0.027	519.753	3.876
3	765.953 (8.263) **			-328.654 (2.991) **					0.072	507.745	8.943
4	-369.759 (0.215)				-328.654 (2.991) **				0.007	528.823	0.276
5	134.048 (0.303)					1019.386 (0.525)			0.002	527.422	0.820
6	134.048 (0.303)						2.072 (0.711)		0.005	528.229	0.506
7	134.048 (0.303)							-147.590 (1.042)	0.001	526.739	1.086
8	744.293 (2.407) *	-13.571 (0.323)	-176.697 (1.969) *						0.019	522.050	1.973
9	836.438 (2.750) **	-4.687 (0.113)	-104.468 (1.112)	-285.929 (2.444) *					0.065	509.650	3.372
10	837.617 (0.480)	-4.687 (0.113)	-104.468 (1.112)	-337.041 (2.701) *	-328.654 (2.991) **				0.055	512.216	2.504
11	837.617 (0.480)	-5.599 (0.135)	-101.185 (1.044)	-337.041 (2.701) *	-41.295 (0.021)	152.413 (0.298)			0.046	514.589	2.002
12	837.617 (0.480)	-5.777 (0.139)	-65.192 (0.637)	-337.041 (2.701) *	-336.901 (0.172)	215.390 (0.419)	3.411 (1.094)		0.048	514.072	1.872
13	837.617 (0.480)	-2.524 (0.061)	-66.974 (0.657)	-337.041 (2.701) *	1102.534 (0.547)	219.917 (0.430)	3.668 (1.179)	-190.896 (1.325)	0.056	512.08	1.867

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. Market price per share is the dependent variable.

Table 5 shows that the beta coefficients of board size are positive with market price per share. It indicated that board size has Negative impact on market price per share. This finding is consistent with the findings of Singh and Davidson (2003). Furthermore, the beta coefficients of Board diversity are Negative with Market price per share. It indicated that Board diversity has a Negative impact on market price per share. This finding is inconsistent with the findings of Farrell and Hersch (2005). The beta coefficients of Independent directors are Negative with Market price per share. It indicated that Independent directors has a Negative impact on market price per share. This finding is inconsistent with the findings of Zhua et

al. (2016). The beta coefficients of debt to assets are positive with Market price per share. It indicated that Debt to assets has a positive impact on market price per share. This finding is consistent with the findings of Graham et al. (2000). The beta coefficients of Debt to equity are positive with Market price per share. It indicated that debt to equity has appositive impact on market price per share. This finding is inconsistent with the findings of Rajan and Zingales (1995). The beta coefficients of Institutional ownership are positive with Market price per share. It indicated that Institutional ownership has a positive impact on market price per share. This finding is consistent with the findings of Clay (2002). The beta coefficients of Audit Committee are Negative with Market price per share. It indicated that Audit Committee has a Negative impact on market price per share. This finding is inconsistent with the findings of Karamanou and Vafeas (2005).

4. Summary and conclusion

Corporate governance can be defined as the process and structure that is used for directing and managing business' affairs in order to enhance business prosperity and corporate accountability with the ultimate objective. Good corporate governance builds the platform for a smooth, faster, easier and reliable financial system, clarifying responsibilities, fostering transparency and fairness to encourage greater individual accountability. Firms' governance plays an important role in the probability of accounting frauds and firms which have a weak governance structure being more prone to accounting frauds.

This study attempts to examine the impact of corporate governance and financial leverage on the value of Nepalese commercial banks. The study is based on secondary data of 13 commercial banks with 104 observations for the study period from 2015/16 to 2022/23.

The study showed that debt to total assets, debt to total equity and institutional ownership have positive effect on market price per share in the context of Nepalese commercial banks. However, board size, board diversity, independent director and audit committee ratio has negative effect on market price per share. On the other hand, the study also showed that board size and debt to equity ratio and audit committee have a positive impact with return on assets. However, board diversity, independent director, debt to total assets ratio and institutional ownership have negative effect on return on assets. The study also showed that corporate governance and financial leverage have significant influence on firm value of Nepalese commercial banks. Likewise, the study concluded that debt to total assets ratio followed by independent director is the most influencing factor that explains the changes in value of firm of Nepalese commercial banks.

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