

Foreign Shareholding, Corporate Governance and Firm Performance: A Case of Nepal

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Abstract

The study examines the foreign shareholding, corporate governance and firm performance in the context of Nepalese commercial banks. Return on assets and return on equity are selected as the dependent variables. The selected independent variables are board size, audit committee size, number of board meeting, firm age, bank size and foreign ownership. The study is based on secondary data of 10 Nepalese commercial banks with 100 observations for the period from 2014/15 to 2023/24. 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 foreign shareholding, corporate governance and firm performance in the context of Nepalese commercial banks.

The study showed that board size has a positive impact on return on assets and return on equity. It indicates that larger the board size, higher would be the return on assets and return on equity. Similarly, audit committee size has a positive impact on return on assets and return on equity. It indicates that increase in audit committee size leads to increase in return on assets and return on equity. Likewise, number of board meetings have positive impact on return on assets and return on equity. It indicates that increase in number of board meetings lead to increase in return on assets and return on equity. However, firm age has a negative impact on return on assets and return on equity. It indicates that higher the firm age, lower would be the return on assets and return on equity. In contrast, bank size has a positive impact on return on assets and return on equity. It indicates that higher the bank size, higher would be the return on assets and return on equity. Further, foreign ownership has a positive impact on return on assets and return on equity. It indicates that increase in foreign ownership leads to increase in return on assets and return on equity.

Keywords: board size, audit committee size, number of board meeting, firm age, bank size, foreign ownership, return on assets, return on equity

1. Introduction

In the context of increased globalization of capital markets, many countries, particularly emerging and developing economies, have progressively liberalized their financial systems and opened up their capital markets to attract foreign investment. This strategic move is often motivated by the desire to boost capital inflows, enhance market liquidity, foster financial innovation, and accelerate economic growth. The entry of foreign investors, especially institutional ones such as mutual funds, pension funds, and hedge funds, has significantly altered the dynamics of domestic capital markets (Bekaert and Harvey, 2000). Their participation brings not only capital but also international best practices in governance, transparency, and risk management, which can positively influence local firms and financial institutions. Consequently, foreign ownership has become a crucial component of the domestic ownership structure, shifting the balance of corporate control and introducing a broader range of stakeholders into the market. This changing ownership landscape plays a pivotal role in shaping corporate behavior, market performance, and policy decisions. Moreover, the presence of foreign investors enhances the credibility of

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local capital markets, often encouraging domestic investors to become more active as well. Thus, foreign ownership does not merely supplement the development of capital markets or contribute to macroeconomic growth; it also embeds itself deeply into the structure of ownership and control, becoming an influential force in corporate governance and financial market evolution within host countries (Dahlquist and Robertsson, 2001).

Garner and Kim (2013) examined whether foreign investors impact corporate governance by analyzing the relation between foreign share ownership and pay-performance sensitivity. The study that firms with higher foreign share ownership demonstrate significant pay-performance sensitivity while their low foreign share counterparts do not, suggesting that foreign investors may be good monitors. The study control for the potential self-selection bias that foreign investors may only invest in firms that have already exhibited good governance practices, and our results are unchanged. The results suggested that foreign shareholders are able to promote improved corporate governance in an emerging market. Al-Thuneibat (2018) found that there is a significant inverted U shaped relationship between foreign ownership and firm performances. The non-monotonic relationship is consistent with corporate governance theory on the gains from monitoring effects by shareholders or the losses from expropriations when their ownership exceeds a certain large level. Furthermore, the study found that foreign investors disfavor firms with high concentration of ownership that relates to image of weak corporate governance. Lastly, there are also evidences that foreign investors are likely to invest in firms with good financial performances, large size, low level of debts, in pharmaceutical industry, and listed in higher liquid stock exchange.

Tsafack and Guo (2021) examined how a firm's corporate governance characteristics and institutional environment affect the presence of large foreign shareholding, and how a firm's foreign ownership influences its performance. For a sample of listed Chinese companies, the study that both firm-level governance characteristics and country-level institutional environment affect the presence and the extent of large foreign shareholding. The study also found an inverted U-shaped relation between a firm's foreign ownership and its return on assets, return on equity and Tobin's q. The implied optimal foreign ownership increases when changes in institutional environment reduce the opportunity for controlling shareholders to extract private benefits. Khasawneh and Staytich (2017) examined the impact of foreign ownership on capital structure and the impact of foreign ownership on firms' value in the non-financial listed companies in Amman Stock Exchange, taking into consideration the effects of the sector to which the firm belongs. Panel data sets are formed and panel data techniques are used. The empirical results suggested a significant negative relationship between foreign ownership and all three measurements of capital structure; although foreign ownership has the largest effect on the short term market leverage relative to both long term and total market leverage. The sector of the firms' matters and especially when it comes to the impact of the services sector, it is found that the foreign ownership impact is always statistically significant, although it has a lower impact for the industrial firms. A strong significant positive relationship between foreign ownership and firms' value is also found, and the sector of the firms is found to be an important variable in the firm's value determination.

Aggarwal *et al.* (2005) found that, at the country level, U.S. funds show a preference for emerging markets with stronger accounting standards, shareholder rights, and legal frameworks. At the firm level, the study found that firms with more transparent accounting disclosures and firms that issue American Depositary Receipts attract greater US. Mutual fund investments. For a sample of 4409 firms from 29 non-U.S. countries, Leuz *et al.* (2009) examined whether and why concerns about corporate governance result in fewer holdings of U.S. investors. The study found that U.S. investors hold significantly fewer shares in firms

with high levels of managerial and family control when these firms are located in countries with poor outsider protection and disclosure. However, firms with substantial managerial and family control do not experience less foreign investment when they reside in countries with extensive disclosure requirement and strong investor protection. This suggests that country-level institutional environment influences the relation between a firm's control structure and its foreign ownership. The relation between foreign shareholding and firm performance has been examined in different contexts by previous studies. For a sample of Venezuelan firms from 1976 to 1989, Aitken and Harrison (1999) found that foreign equity participation is positively correlated with plant productivity (i.e., plant real output) only for small enterprises.

Harris and Robinson (2003) found that foreign-owned companies in the United Kingdom have greater productivity than domestic-owned companies. For a sample of Indian firms, Chhibber and Majumdar (1999) reported that only firms with foreign ownership level at 51 percent or higher have relatively superior performance on return on assets and return on sales. For a sample of firms in 27 countries, Ferreira and Matos (2008) found that foreign institutional investors have a positive effect on a firm's operating performance and firm value. Aggarwal *et al.* (2011) also found a positive effect of foreign institutional ownership on firm value for a sample of firms in 23 countries. Wei *et al.* (2005) found that foreign ownership is significantly positively related to firms' Tobin' q for a sample of China's privatized firms from 1991 to 2001. Greenaway *et al.* (2014) examine the relation between foreign ownership and firm performance for Chinese unlisted private companies for the period of 2000 to 2005, and find that joint ventures perform better than either wholly foreign-owned or purely domestic firms. For a sample of listed Chinese companies from 2006 to 2012, Hai *et al.* (2018) reported that foreign shareholdings can reduce firms' agency costs and cost of equity and improve firm performance. Leuz *et al.* (2009) suggested that foreign investors' information disadvantage relative to domestic investors helps explain why a firm's foreign shareholding is likely to be affected by its corporate governance characteristics.

In the context of Nepal, Silwal *et al.* (2023) showed that board meeting has a negative impact on return on assets. It shows that increase in board meeting leads to decrease in return on assets. Similarly, board independent director has a negative impact on return on assets and return on equity. It implies that increase in board independent directors leads to decrease in return on assets and return on equity. However, board gender diversity has a negative impact on return on assets. It implies that increase in number of female directors leads to decrease in return on assets. Similarly, shareholding pattern has a negative impact on return on assets and return on equity. It means increase in shareholding pattern leads to decrease in return on assets and return on equity. However, audit committee size has a negative impact on return on assets. It means that decrease in audit committee size leads to increase in return on assets. However, audit committee size has a positive impact on return on equity. It means that increase in audit committee size leads to increase in return on equity. Similarly, Ojha *et al.* (2016) revealed that board composition, leverage, institutional ownership and public ownership have positive impact on the bank performance in Nepal. However, board size, bank size and audit committee size have negative impact on the bank performance.

Shrestha *et al.* (2023) showed that board size has a negative impact on efficiency ratio. It means that increase in board size leads to decrease in efficiency ratio. However, audit committee size has positive effect on efficiency ratio and return on equity. It means that increase in audit committee size leads to increase in efficiency ratio and return on equity. Similarly, board independence has a negative impact on efficiency ratio. It shows that increase in the number of independent directors leads to decrease in efficiency ratio. Furthermore, gender diversity has a positive impact on efficiency ratio and return on equity. It indicates that

higher number of female directors leads to increase in efficiency ratio and return on equity. In contrast, dividend payout ratio has positive effect on efficiency ratio and return on equity. It indicates that higher the dividend payout ratio, higher would be the efficiency ratio and return on equity. Furthermore, foreign ownership has positive effect on efficiency ratio and return on equity. It shows that higher the presence of foreign ownership, higher would be the efficiency ratio and return on equity.

The above discussion shows that empirical evidences vary greatly across the studies on the effect of foreign shareholding and corporate governance on bank performance. 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 effect of foreign shareholding and corporate governance on bank performance in Nepalese commercial banks. Specifically, it examines the relationship of board size, audit committee size, number of board meeting, bank size, firm age and foreign ownership on return on assets and return on equity 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 section draws the conclusion.

2. Methodological aspects

The study is based on the secondary data which were collected from 10 Nepalese commercial banks for the study period from 2014/15 to 2023/24, leading to a total of 100 observations. The main sources of data collected from the Bank Supervision Report published by Nepal Rastra Bank (NRB) and annual reports of the selected commercial 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 Commercial Banks	Study Period	Observations
1	Global IME Bank Limited	2014/15-2023/24	10
2	NIC Asia Bank Limited	2014/15-2023/24	10
3	Nabil Bank Limited	2014/15-2023/24	10
4	Prabhu Bank Limited	2014/15-2023/24	10
5	Himalayan Bank Limited	2014/15-2023/24	10
6	Nepal Bank Limited	2014/15-2023/24	10
7	Agricultural Development Bank Limited	2014/15-2023/24	10
8	Siddhartha Bank Limited	2014/15-2023/24	10
9	Everest Bank Limited	2014/15-2023/24	10
10	NMB Bank Limited	2014/15-2023/24	10
Total number of observations			100

Thus, the study is based on 100 observations.

The model

The model estimated in this study assumes that financial performance depends upon corporate governance and foreign ownership. The selected dependent variables are return on assets and return on equity. Similarly, the selected independent variables are board size, audit committee size, number of board meeting, bank size, firm age and foreign ownership. Therefore, the model takes the following from:

$$ROA_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 AC_{it} + \beta_3 NOM_{it} + \beta_4 FA_{it} + \beta_5 BSIZE_{it} + \beta_6 FO_{it} + e_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 AC_{it} + \beta_3 NOM_{it} + \beta_4 FA_{it} + \beta_5 BSIZE_{it} + \beta_6 FO_{it} + e_{it}$$

Where,

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 ratio of net income to total shareholder equity, in percentage.

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

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

NOM = Number of board meetings as measured by the number of board meetings held in a year, in numbers.

FA = Firm age as measured by the number of years since the bank's establishment, in years

BSIZE = Bank size as measured by total assets, Rs. in billions.

FO = Foreign ownership as the dummy variable where 0 implies no any ownership of foreign institutions and 1 implies there is the ownership of foreign institutions.

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

Board size

Wijaya and Memarista (2024) investigated the commissioner's number of boards on the Indonesian go-public company's performance. The study's samples are non-financial firms from 2015 until 2019, with 1210 observations. The commissioner's number of boards significantly and positively affects Tobin's q and the market-to-book value ratio as the business performance measurement. Obeitoh *et al.* (2023) assessed the moderating role of board expertise in examining board characteristics and firm performance. The study adopts GMM statistical model with 10-year panel data among 40 listed firms in Nigeria. The 10-year period covers 2012 to 2021. The findings of the study revealed a significant positive relationship between board size, meeting, young female directors, female financial experts, board expertise and financial performance. The interaction of board expertise as a moderator with board size, independence, young female directors, and female financial experts improves firm performance. Abiad *et al.* (2025) found a positive relationship between board size and audit committee on the financial performance of the banking sector in Gulf Cooperation Council (GCC) countries. Based on it, this study develops the following hypothesis:

H₁: There is a positive relationship between board size and bank performance.

Audit committee size

Altin (2024) investigated the impact of audit committee characteristics on firm performance. In particular, the study employed the random-effects variant of the Hunter-Schmidt meta-analyze procedure to analyze the effects of key audit committee attributes, namely audit committee independence, audit committee expertise, audit committee size, audit committee meeting along with big four impact on firm performance. The results indicated 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) examined the relationship between audit committee (AC) effectiveness and firm performance (FP) with the moderation of knowledge intensity while observing the varying effect of each AC characteristic's influence on its effectiveness. The results indicated that the knowledge intensity of the firms negatively influences the relationship between their AC effectiveness and FP, implying that the ACs are not sophisticated enough to monitor the knowledge component of the firm's assets. Among AC characteristics, six attributes have a significant positive impact, two have a negative impact and three have no significant influence on AC effectiveness while influencing FP. Alodat *et al.* (2023) investigated the influence of sustainability disclosure (SD) practices on the relationship between audit committee chair characteristics and firms' performance of the companies listed on the ASE from 2014 to 2018. The findings revealed a significant and positive relationship between the accounting expertise, tenure, and monitoring expertise of the AC chairs and the performance of the firm measures tested, namely, ROA and ROE. Based on it, this study develops the following hypothesis:

H₂: There is a positive relationship between audit committee size and bank performance.

Number of board meeting

Higher board meeting frequency helps the board to interact and supervise the organization's activities, enhancing firm performance. Boards that meet more frequently produce better financial results and significantly increase firm performance (Ntim and Osei, 2011). Sahoo *et al.* (2023) examined the relationship between board characteristics and firm performance and the moderating effects of bank size, the board size, and firm age between board characteristics and firm performance of 113 firms with 904 observations from 2012-13 to 2019-20 using the fixed panel data estimation approach. The results showed that the board size, female director, Promoter CEOs, meeting frequencies, and attendance rate positively affect firm performance. Al-Absy and Hasan (2023) examined the impact of the characteristics of the board of directors (BOD), namely board independence, board size, frequency of board meetings, and board gender diversity, on firm performance of all firms listed in the Bahrain Bourse for 2019 and 2020. The study showed that board independence, size, frequency of meetings, and gender diversity insignificantly enhance Bahraini firms' performance. Based on it, this study develops the following hypothesis:

H₃: There is a positive relationship between number of board meeting and bank performance.

Bank size

According to Dube *et al.* (2019), banks with larger total assets may have the advantage of economies of scale, allowing them to spread fixed costs over a larger asset base, thereby enhancing profitability. However, the efficiency of asset management plays

a significant role in determining whether larger asset volumes translate into higher profits. Ginting *et al.* (2021) showed that total assets have a positive and significant relationship with profitability in the banking sector, especially when the assets are effectively deployed in income-generating activities. Hasan *et al.* (2020) found that banks with higher total assets, when properly managed, tend to generate better returns, as they have the financial muscle to invest in profitable ventures and absorb economic shocks. Based on it, this study develops the following hypothesis:

H₄: There is a positive relationship between bank size and bank performance.

Firm age

Danso *et al.* (2024) revealed that businesses can improve their financial performance by including an appropriate mix of expertise on their boards, especially for relatively younger small-sized firms. In contrast, more prominent and ageing firms may not see the same financial benefits. Adil *et al.* (2023) examined the connection between board structure and financial performance, as well as the moderating impact of firm age and size on the link between board structure and performance. The results of this meta-analysis revealed that the impact of board structure on financial performance was influenced by the age and size of the firm. The findings specifically indicated that as compared to older and larger firms, younger and smaller enterprises exhibited a stronger effect of board structure on financial performance. Digdowiseiso (2023) examined the effect of current ratio, firm age, and good corporate governance on corporate social responsibility. The study explored the moderating effects of bank size on the relationships between current ratio, firm age, and good corporate governance on corporate social responsibility among mining sector companies listed on the Indonesia Stock Exchange from 2017 to 2021. The study showed that there was an inverse relationship between bank size, firm age, performance and corporate social responsibility. Furthermore, bank size did not affect the relationship between the current ratio and corporate social responsibility, nor the relationship between firm age and corporate social responsibility. This study revealed that bank size and age weakened the link between good corporate governance and corporate social responsibility. Based on it, this study develops the following hypothesis:

H₅: There is a negative relationship between firm age and bank performance.

Foreign ownership

Gupta and Mer (2023) explored the association among foreign ownership, ownership concentration with firm performance. After controlling endogeneity issue, result showed significant positive impact of foreign ownership on Tobin's Q and ROE on firm performance where as significant negative impact on ROA. However, ownership concentration show significant positive impact on Tobin's Q and ROE where as significant negative impact on ROA. Tran *et al.* (2025) examined the relationship between corporate ownership and firm performance, and the mechanisms through which ownership creates the firm value. The study revealed that firms with highly concentrated ownership tend to have better performance. Both state ownership and foreign ownership with their unique advantages contribute to enhancing firm performance. Putri and Setiawan (2023) examined the influence of foreign ownership, company website on firm performance in Indonesia. The results showed a positive relationship between foreign ownership, company website and firm performance. Based on it, this study develops the following hypothesis:

H₆: There is a positive relationship between foreign ownership and bank performance.

3. Results and discussions

Descriptive statistics

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2014/15-2023/24.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 10 Nepalese commercial banks for the study period of 2014/15 to 2023/24. The dependent variables are ROA (Return on assets as measured by the ratio of net income to total assets, in percentage) and ROE (Return on equity as measured by the ratio of net income to total shareholder equity, in percentage). The independent variables are BS (Board size as measured by the number of board members, in numbers), ACS (Audit committee size as measured by the number of audit committee members, in numbers), NOM (Number of board meetings as measured by the number of board meetings held in a year, in numbers), FA (Firm age as measured by the number of years since the bank's establishment, in years), BS (Bank size as measured by total assets, Rs. in billions) and FO (Foreign ownership as the dummy variable where 0 implies no any ownership of foreign institutions and 1 implies there is the ownership of foreign institutions).

Variables	Minimum	Maximum	Mean	Std. Deviation
ROA	0.47	2.79	1.58	0.50
ROE	4.00	43.00	14.08	5.02
BS	5.00	10.00	6.80	1.11
ACS	2.00	5.00	3.09	0.37
NOM	5.00	35.00	19.26	7.46
BA	0.21	0.99	0.84	0.14
BSIZE	3.42	419.82	146.05	70.45
FO	15.00	95.08	48.57	22.36

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 10 Nepalese commercial banks for the study period of 2014/15 to 2023/24. The dependent variables are ROA (Return on assets as measured by the ratio of net income to total assets, in percentage) and ROE (Return on equity as measured by the ratio of net income to total shareholder equity, in percentage). The independent variables are BS (Board size as measured by the number of board members, in numbers), ACS (Audit committee size as measured by the number of audit committee members, in numbers), NOM (Number of board meetings as measured by the number of board meetings held in a year, in numbers), FA (Firm age as measured by the number of years since the bank's establishment, in years), BS (Bank size as measured by total assets, Rs. in billions) and FO (Foreign ownership as the dummy

variable where 0 implies no any ownership of foreign institutions and 1 implies there is the ownership of foreign institutions).

Variables	ROA	ROE	BS	ACS	NOM	FA	BSIZE	FO
ROA	1							
ROE	0.407**	1						
BS	0.143	0.148	1					
ACS	0.098	0.001	-0.122	1				
NOM	0.012	0.044	-0.17	0.081	1			
FA	-0.347**	-0.123	0.084	0.032	0.013	1		
BSIZE	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

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

Table 3 shows that there is a positive relationship between board size and return on assets. It indicates that larger the board size, higher would be the return on assets. Similarly, there is a positive relationship between audit committee size and return on assets. It indicates that increase in audit committee size leads to increase in return on assets. Likewise, there is a positive relationship between number of board meetings and return on assets. It indicates that increase in number of board meetings lead to increase in return on assets. However, there is a negative relationship between firm age and return on assets. It indicates that higher the firm age, lower would be the return on assets. In contrast, there is a positive relationship between bank size and return on assets. It indicates that higher the bank size, higher would be the return on assets. Further, there is a positive relationship between foreign ownership and return on assets. It indicates that increase in foreign ownership leads to increase in return on assets.

Similarly, there is a positive relationship between board size and return on equity. It indicates that larger the board size, higher would be the return on equity. Similarly, there is a positive relationship between audit committee size and return on equity. It indicates that increase in audit committee size leads to increase in return on equity. Likewise, there is a positive relationship between number of board meetings and return on equity. It indicates that increase in number of board meetings lead to increase in return on equity. However, there is a negative relationship between firm age and return on equity. It indicates that higher the firm age, lower would be the return on equity. In contrast, there is a positive relationship between bank size and return on equity. It indicates that higher the bank size, higher would be the return on equity. Further, there is a positive relationship between foreign ownership and return on equity. It indicates that increase in foreign ownership leads to increase in return on equity.

Regression analysis

Having analyzed the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 4. More specifically, it presents the regression results of board size, audit committee size, number of board meeting, firm age, bank size and foreign ownership on return on assets of Nepalese commercial banks.

Table 4

Estimated regression results of board size, audit committee size, number of board meeting, firm age, bank size and foreign ownership on return on assets

The results are based on panel data of 10 Nepalese commercial banks with 100 observations for the study period from 2014/15 to 2023/24 by using the linear regression model and the model is $ROA_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 AC_{it} + \beta_3 NOM_{it} + \beta_4 FA_{it} + \beta_5 BSIZE_{it} + \beta_6 FO_{it} + e_{it}$ 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), ACS (Audit committee size as measured by the number of audit committee members, in numbers), NOM (Number of board meetings as measured by the number of board meetings held in a year, in numbers), FA (Firm age as measured by the number of years since the bank's establishment, in years), BS (Bank size as measured by total assets, Rs. in billions) and FO (Foreign ownership as the dummy variable where 0 implies no any ownership of foreign institutions and 1 implies there is the ownership of foreign institutions).

Model	Intercept	Regression coefficients of						Adj. R _{bar} ²	SEE	F-value
		BS	ACS	NOM	FA	BSIZE	FO			
1	1.312 (1.343)	0.438 (3.087)**						0.076	1.598	9.527
2	2.050 (1.490)		0.125 (0.282)					0.009	1.669	0.082
3	3.318 (3.315)**			0.032 (4.530)**				0.159	1.524	20.480
4	3.318 (3.315)**				-1.963 (1.657)			0.017	1.650	2.744
5	1.332 (2.854)**					0.357 (0.747)		0.004	1.672	0.558
6	2.090 (11.477)**						0.357 (0.747)	0.138	1.541	17.550
7	0.688 (0.433)	0.443 (3.102)**	0.213 (0.499)					0.070	1.603	4.850
8	2.322 (1.362)	0.258 (1.794)	0.317 (0.787)	0.028 (3.695)**				0.173	1.518	8.190
9	0.549 (0.282)	0.257 (1.809)	0.317 (0.787)	0.028 (3.746)**	-1.964 (1.825)			0.192	1.496	7.120
10	0.336 (0.166)	0.244 (1.676)	0.253 (0.626)	0.037 (5.244)**	-1.964 (1.825)	0.672 (1.629)		0.185	1.514	5.620
11	4.256 (2.136)*	0.071 (0.485)	0.350 (0.957)	0.037 (5.244)**	-0.894 (0.883)	0.672 (1.629)	0.030 (4.820)**	0.337	1.363	9.630

Notes:

- i. Figures in parenthesis are t-value
- 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 similar to the findings of Wijaya and Memarista (2024). Similarly, the beta coefficients for audit committee size are positive with return on assets. It indicates that audit committee size has a positive impact on return on assets. This finding is consistent with the findings of Altin (2024). Likewise, the beta coefficients for number of board meetings are positive with return on assets. It indicates that number of board meetings have positive impact on return on assets. This finding is similar to the findings of Sahoo *et al.* (2023). However, the beta coefficients for firm age are negative with return on assets. It indicates that firm age has a negative impact on return on assets. This finding is consistent with the findings of Danso *et al.* (2024). In contrast, the beta coefficients for bank size are positive with return on assets. It indicates that bank size has a positive impact on return on assets. This finding is similar to the findings of Ginting *et al.* (2021). Further, 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 similar to the findings of Gupta and Mer (2023).

Table 5 presents the regression results of board size, audit committee size, number of board meeting, firm age, bank size and foreign ownership on return on equity of Nepalese commercial banks.

Table 5

Estimated regression results of board size, audit committee size, number of board meeting, firm age, bank size and foreign ownership on return on equity

The results are based on panel data of 10 Nepalese commercial banks with 100 observations for the study period from 2014/15 to 2023/24 by using the linear regression model and the model is $ROE_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 ACS_{it} + \beta_3 NOM_{it} + \beta_4 FA_{it} + \beta_5 BSIZE_{it} + \beta_6 FO_{it} + e_{it}$ where, the dependent variable is ROE (Return on equity as measured by the ratio of net income to total shareholder equity, in percentage). The independent variables are BS (Board size as measured by the number of board members, in numbers), ACS (Audit committee size as measured by the number of audit committee members, in numbers), NOM (Number of board meetings as measured by the number of board meetings held in a year, in numbers), FA (Firm age as measured by the number of years since the bank’s establishment, in years), BS (Bank size as measured by total assets, Rs. in billions) and FO (Foreign ownership as the dummy variable where 0 implies no any ownership of foreign institutions and 1 implies there is the ownership of foreign institutions).

Model	Intercept	Regression coefficients of						Adj. R _{bar} 2	SEE	F-value
		BS	ACS	NOM	FA	BSIZE	FO			
1	1.370 (0.225)	2.031 (2.308)*						0.040	9.908	5.325
2	6.490 (0.801)		2.031 (2.308)*					0.057	9.820	7.261
3	9.260 (3.632)**			0.117 (2.504)*				0.049	9.865	6.272
4	10.960 (1.758)				0.117 (2.504)*			0.005	10.141	0.467
5	9.930 (3.581)**					5.864 (2.062)*		0.031	9.940	4.250
6	17.240 (15.101)**						5.864 (2.062)*	0.085	9.674	10.590
7	18.140 (1.898)	3.105 (3.647)**	6.645 (2.593)**					0.091	9.642	6.174
8	38.009 (3.758)**	3.105 (3.647)**	6.645 (2.593)**	0.186 (4.113)**				0.215	8.961	10.404
9	43.337 (3.710)**	3.102 (3.641)**	7.453 (3.114)**	0.186 (4.105)**	0.117 (2.504)*			0.214	8.969	7.999
10	49.275 (4.205)**	1.796 (1.944)	7.978 (3.393)**	0.185 (4.172)**	-7.579 (1.194)	5.874 (2.277)*		0.248	8.755	7.734
11	37.200 (2.965)**	1.796 (1.944)	7.680 (3.337)**	0.157 (3.500)**	-4.117 (0.646)	7.344 (2.828)**	0.092 (2.358)*	0.282	8.556	7.675

Notes:

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

Table 5 shows that the beta coefficients for board size are positive with return on equity. It indicates that board size has a positive impact on return on equity. This finding is similar to the findings of Obeitoh *et al.* (2023). Similarly, 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 Singhania and Panda (2024). Likewise, the beta coefficients for number of board meetings are positive with return on equity. It indicates that number of board meetings have positive impact on return on equity. This finding is similar to the findings of Al-Absy and Hasan (2023). However, the beta coefficients for firm age are negative with return on equity. It indicates that firm age

has a negative impact on return on equity. This finding is consistent with the findings of Adil *et al.* (2023). In contrast, the beta coefficients for bank size are positive with return on equity. It indicates that bank size has a positive impact on return on equity. This finding is similar to the findings of Hasan *et al.* (2020). Further, 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 similar to the findings of Putri and Setiawan (2023).

4. Summary and conclusion

There is a crucial role of effective corporate governance in mediating the relationship between ownership structure and performance. Firms with robust governance frameworks, including independent boards, transparent reporting, and shareholder protection mechanisms, tend to leverage foreign investment more efficiently, translating into sustainable growth and profitability. In the context of Nepal, where corporate governance practices are still evolving, the presence of foreign shareholders can exert positive pressure on firms to adhere to higher standards. However, the impact varies depending on bank size, industry, and existing governance infrastructure.

This study attempts to examine the foreign shareholding, corporate governance and firm performance: A case of Nepal. This study is based on the secondary data of 10 Nepalese commercial banks, leading to a total of 100 observations.

The major conclusion of this study is that board size, audit committee size, number of board meeting, bank size and foreign ownership have positive impact on return on assets and return on equity. It indicates that higher the board size, audit committee size, number of board meeting, bank size and foreign ownership, higher would be the return on assets and return on equity. However, firm age has a negative impact on return on assets and return on equity. It indicates that increase in firm age leads to decrease in return on assets and return on equity. Similarly, the study also concluded that number of board meetings followed by foreign ownership is the most influencing factor that explains the changes in return on assets in the context of Nepalese commercial banks. Likewise, the study also concluded that foreign ownership followed by audit committee size is the most influencing factor that explains the changes in return on equity in the context of Nepalese commercial banks.

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