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Effect of Corporate Governance, Leverage and Dividend Policy on the Firm Value of Nepalese Commercial Banks

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Abstract

The study examines the effect of corporate governance, leverage and dividend policy on the firm value of Nepalese commercial banks. Market price per share and return on equity are selected as the dependent variables. The selected independent variables are board size, board independence, foreign ownership, gender diversity, dividend payout ratio, dividend per share, debt to equity ratio and debt to assets ratio. The study is based on secondary data of 10 commercial banks with 100 observations for the period from 2012/13 to 2021/22. The data were collected from Banking and Financial Statistics published by Nepal Rastra Bank, publications and websites of 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, leverage and dividend policy on the firm value of Nepalese commercial banks.

The study showed that gender diversity has a positive impact on market price per share and return on equity. It implies that increase in female board directors leads to increase in market price per share and return on equity. However, board size has a negative impact on market price per share and return on equity. It means that increase in board size leads to decrease in market price per share and return on equity. Similarly, the study showed that board independence has a positive impact on market price per share and return on equity. It implies that increase in number of independent directors in board leads to increase in market price per share and return on equity. Likewise, debt to equity ratio has a positive impact on market price per share and return on equity. It implies that increase in debt-to-equity ratio leads to increase in market price per share and return on equity. In addition, dividend per share has a positive impact on market price per share and return on equity. It implies that increase in dividend per share leads to increase in market price per share and return on equity. However, debt to assets ratio has a negative impact on market price per share and return on equity. It shows that increase in debt to assets ratio leads to decrease in market price per share and return on equity. Further, dividend payout ratio has a negative impact on market price per share and return on equity. It shows that increase in dividend payout ratio leads to decrease in market price per share and return on equity.

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Keywords: board size, board independence, foreign ownership, gender diversity, dividend payout ratio, dividend per share, debt to equity ratio and debt to assets ratio, return on equity

1. Introduction

Good corporate governance is a key element in a satisfactory framework for financial supervision. The financial system is only likely to maintain stability if there is a reasonable balance between the interests of the various stakeholders in banks. Corporate governance is a modern corporate management model which is believed to bring change for better bank management in facing current and future challenges marked by intense competition between banks in winning customer trust and developing bank business. Good corporate governance refers to the well-structured system in management processes, policies, laws and customs that help companies to control their operations. It focusses on the right of shareholders and reduces the diversion of their interests (Monks and Minow, 2004). It is used to balance the interest of different stakeholders in a company, including shareholders, perspective investors, managers, employees, customers, suppliers and government to deliver a long-term successful story. According to Dicuonzo *et al*. (2022), companies are likely to deal with a higher level of agency cost with a poor structure of corporate governance, in which powerful management teams can perform acts disfavoring shareholders' benefits, to achieve managerial self-interest. Effective corporate governance reduces the control rights shareholders confer on managers, increasing the probability that managers invest in positive net present value projects. Good corporate governance practice provides a means to recognize the dream of justifying risks and optimizing performance concurrently in today's aggressive and regulatory setting. Companies have failed because of corporate governance problems and unethical practices. The objective behind corporate governance is to safeguard the interests of shareholders. There is a doubt whether existing regulatory framework is adequate to deal with the corporate fraud (Cohen et al., 2002). Good corporate governance is a good shield for companies to fight corporate fraud.

Dawood (2014) assessed the factors impacting profitability of commercial banks in Pakistan for the period of 2009-2012. The study showed that equity to total assets have positive effect on bank profitability. Rumler and Waschiczek (2012) investigated how changes in the financial structure affect bank profitability in the context of Austria. The study found that equity to assets ratio (EAR) has a significant positive effect on return on assets.

Similarly, Capraru and Ihnatov (2015) examined the determinants of bank's profitability in EU15.The study found that equity to asset ratio (EAR) has positive effect on bank profitability measured by ROA. Sanlsoy *et al*. (2017) investigated the effect of political risk and bank specific factors on bank profitability. The study found that there is a significant positive association between the total loans-to total assets ratio and bank profitability. Meanwhile, Liang *et al*. (2013) examined the relationship between board characteristics and Chinese bank performance. The study revealed a significant positive association between the ratio of total loans to total assets and profitability of banks. Alshatti (2016) showed that leverage has a positive effect on the banks' profitability in Jordan. Trujillo-Ponce (2013) concluded that bank profitability is related to a high leverage ratio, increased percent of deposits and good efficiency.

The profitability of banking and insurance sector not only contributes in economies but also helps to maintain the stability of the financial system and enable economies to endure the external and negative financial shocks. A strong financial system plays a critical role in enabling growth and reducing vulnerability to crises among financial institutions. Stability of the financial system in an economy is an important catalyst for economic growth due to its function in facilitating exchange of value. The high level of bank capital boosts the confidence and trust of the public about the soundness of the bank (Carmona *et al.,* 2019). Firm value is the investor's perception of the success of a company. This is reflected in the company's share price. The increase in stock prices shows investor confidence in the company. According to Greene and Segal (2004), the performance of insurance companies in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment and return on equity. Similarly, Chen and Wang (2009) examined the determinant of profitability on firm value of insurance companies. The result showed that profitability has a significant impact on firm value of insurance companies. Likewise, Malik (2011) investigated the determinants of profitability in insurance companies of Pakistan. The study showed that there is a significant positive association between size of the company and profitability. The result also showed that the volume of capital is significantly and positively related to profitability. The study further concluded that loss ratio and leverage ratio have a negative but significant relationship with profitability.

Good performance of a company determines the position of the company in its market and the growth and consolidation of the market. Zafar and Fortyal

(2011) analyzed the leverage position of the Indian banking industry and its impact on EPS, risk-return, and profitability. The study showed a negative relationship between the degree of financial leverage and EPS. The study also showed a negative relationship between the degree of operating leverage and EPS. However, there is a positive relationship between the degree of combined leverage and EPS. Ebiringa and Ezeji (2012) examined the determinants of the profitability of Nigerian commercial banks. The results revealed that bank size and leverage ratio are the most influencing determinants that affect the profitability of Nigerian commercial banks as measured by ROA. Similarly, bank size and liquidity ratio have a significant positive impact on ROE. Nikoo (2015) assessed the impact of capital structure on the efficiency of a bank as measured by return on assets (ROA), return on equity (ROE), and earnings per share. The study showed that the leverage of a firm has a positive impact on ROA, ROE and earnings per share. Malik *et al. (*2016) investigated the effects of operating cash flows attributable to net income and the effect of operating cash flows attributable to sales on the earnings per share. The study showed a significant effect of the operating cash flows attributable to net income on earnings per share, while there is no significant effect on operating cash flows attributable to sales on earnings per share. The study concluded that profitability, turnover and market ratio have a significant impact on the stock return. Yegon *et al.* (2014) investigated the relationship between capital structure and the profitability in the banking industry in Kenya. The study found a significant positive relationship between short-term debt and profitability and a statistically significant negative relationship between long-term debt and profitability. Eichengreen and Gibson (2001) suggested that the effect of a growing bank's size on profitability may be positive up to a certain limit but beyond this limit effect of size could be negative due to bureaucratic and other reasons.

Shah and Khalidi (2020) analyzed the determinants of firm value in Shariah compliant companies. The study found that there is a negative and insignificant relationship between dividend pay-out ratio and firm value. Similarly, Sukmawardini and Ardiansari (2018) determined the influence of institutional ownership, profitability, liquidity, dividend policy, debt policy on firm value. The study revealed that there is a positive and insignificant relationship between dividend pay-out ratio and firm value. However, Sondakh (2019) found that there is a negative and significant relationship between dividend pay-out ratio and firm value. In addition, Sadiah (2018) revealed that there is a positive and significant relationship between dividend

pay-out ratio and firm value. Further, Saputri and Bahri (2021) revealed that there is no significant relationship between dividend pay-out ratio and firm value. Arsal (2021) examined the impact of earnings per share and dividend per share on firm value. The study found that there is a positive and significant relationship between dividend per share and firm value.

In the context of Nepal, Adhikari (2022) found that banks with a risk management committee had lower non-performing loans and higher return on assets. The study also found that the effectiveness of the risk management committee was positively related to the number of meetings held and the experience of the committee members. Good corporate governance and risk management can help to increase shareholder value by reducing the risk of financial losses and by improving the company's overall performance. Pradhan *et al.* (2020) analyzed the corporate governance, risk taking and profitability of Nepalese commercial banks. The study found that female director has a positive and significant impact on bank risk which implies that higher the number of females in directors, lower would be the bank risk.

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

The main purpose of the study is to analyze the effect of corporate governance, leverage and dividend policy on the firm value of Nepalese commercial banks. Specifically, it examines the relationship of board size, board independence, foreign ownership, gender diversity, dividend payout ratio, dividend per share, debt to equity ratio and debt to assets ratio with market price per share and return on equity in the context 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 the conclusion.

2. Methodological aspects

The study is based on the secondary data which were gathered from 10 Nepalese commercial banks for the study period from 2012/13 to 2021/22,

leading to a total of 100 observations. The study has employed purposive sampling method. The main sources of data include Banking and Financial Statistics published by Nepal Rastra Bank, reports published by Ministry of Finance and the 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 banks	Study period	Observations
1	Citizens Bank International Limited	2012-13-2021/22	10
2	Agricultural Development Bank Limited	2012-13-2021/22	10
3	Everest Bank Limited	2012-13-2021/22	10
4	Siddartha Bank Limited	2012-13-2021/22	10
5	NIC Asia Bank Limited	2012-13-2021/22	10
6	Nepal SBI Bank Limited	2012-13-2021/22	10
7	Prime Commercial Bank Limited	2012-13-2021/22	10
8	Sanima Bank Limited	2012-13-2021/22	10
9	NMB Bank Limited	2012-13-2021/22	10
10	Machhapuchchhre Bank Limited	2012-13-2021/22	10
Total number of observations			**100**

Thus, the study is based on 100 observations.

The model

The model used in the study assume that firm value depends upon the corporate governance, leverage and dividend policy of Nepalese commercial banks. The dependent variables selected for the study are market price per share and return on equity. Similarly, the selected independent variables are board size, board independence, foreign ownership, gender diversity, dividend payout ratio, dividend per share, debt to equity ratio and debt to assets ratio. Therefore, the model takes the following forms:

$$MPPS= \beta_0 + \beta_1 BS + \beta_2 BI + \beta_3 FO + \beta_4 GD + \beta_5 DPR + \beta_6 DPS + \beta_7 DER + \beta_8 DAR + e_{it}$$

$$ROE= \beta_0 + \beta_1 BS + \beta_2 BI + \beta_3 FO + \beta_4 GD + \beta_5 DPR + \beta_6 DPS + \beta_7 DER + \beta_8$$

$DAR + e_{it}$

Where,

MPPS = Market price per share as measured by the closing stock price of the banks, in Rs.

ROE= Return on equity as measured by the ratio of total net profit to shareholders equity, in percentage.

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

GD= Gender diversity as measured by the number of female directors in the board, in numbers.

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

DER= Total debt to equity ratio as measured by the ratio of total debt to total equity, in percentage.

DAR= Total debt to asset ratio as measured by the ratio of total debt to total assets, in percentage.

DPR = Dividend payout ratio as measured by the ratio of total dividend to total income, in percentage.

DPS = Dividend per share as measured by the ratio of total dividend to total number of outstanding shares, in Rs.

FO= Foreign ownership as measured by the proportion of ownership held by the foreign institutions, in percentage.

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

Board size

As board size increases, it becomes increasingly difficult for each individual director to effectively monitor management's activities. This can lead to agency problems, where managers act in their own interests rather than the interests of shareholders (Nguyen et al., 2016). Eisenberg et al. (1998) found that larger boards require more time and effort to coordinate, which can divert resources away from other important tasks. This can lead

to inefficient decision-making and reduced firm value. Additionally, Larger boards may be more susceptible to groupthink, where directors conform to the majority opinion rather than challenging it. This can prevent the board from considering all sides of an issue and making sound decisions (Mak and Kusnadi, 2005). Based on it, the study develops following hypothesis:

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

Board independence

According to Mohapatra (2016), banks with more independent boards tend to have higher stock prices, lower costs of capital, and better operating performance. Independent directors are more likely to be objective and unbiased in their oversight of management. They are less likely to be beholden to management or influenced by personal relationships. This allows them to provide more effective monitoring of management's activities and hold management accountable for its performance (Fan et al., 2020). Board independence can help to reduce agency costs, which are the costs that arise from the separation of ownership and control in corporations. When managers control the day-to-day operations of a company, there is a risk that they will act in their own interests rather than in the best interests of shareholders. A more independent board can help to align the interests of managers and shareholders by ensuring that management is held accountable for its actions (Sasidharan, 2020). Based on it, the study develops following hypothesis:

H_2: There is a positive relationship between board independence and firm value.

Total debt to asset ratio

Husna and Satria (2019) assessed the effects of return on asset, debt to asset ratio, current ratio, firm size, and dividend payout ratio on firm value. The study found a negative impact of debt to asset ratio, current ratio, firm size, and dividend payout ratio on firm value. Moreover, Suhendry et al. (2021) analyzed the effect of debt-to-equity ratio and current ratio on company value with return on assets as intervening variable in consumer goods industrial companies listed on the Indonesia Stock Exchange for the 2015–2018. The study showed a negative association between debt-to-equity ratio and company value. Cuong and Canh (2012) showed a negative effect of capital structure measured by debt to assets ratio on firm value for Vietnam's seafood processing enterprises. Based on it, the study develops following hypothesis:

H_3: There is a negative relationship between debt-to-asset ratio and firm value.

Total debt to equity ratio

Nurwulandari and Wahid (2023) assessed the effect of debt-to-equity ratio, return on asset, current ratio, and total asset turnover on stock price with the intervening effect of intrinsic value in Indonesia's Retail Business. The study found a positive association between debt-to-equity ratio and return on asset with stock price and intrinsic value. According to Irsan and Rambe (2021), there is a positive association between return on asset, current ratio and debt to asset ratio of the selected companies In Indonesia Stock Exchange. Wahyuni and Gani (2022) found that banks with higher debt to equity ratio had lower levels of non-performing loans and higher firm value in terms of profit and growth. Based on it, the study develops following hypothesis:

H_4: There is a positive relationship between debt-to-equity ratio and firm value.

Gender diversity

A more diverse boardroom can bring a wider range of perspectives and experiences to the decision-making table, leading to more innovative and effective strategies (Agyemang-Mintah and Schadewitz, 2019). According to Birindelli et al. (2020), banks with more female directors tend to exhibit lower levels of risk-taking, better oversight of management, and stronger adherence to corporate governance practices. Similarly, Andries et al. (2020) stated that female directors tend to be more risk-averse than their male counterparts. This risk-averse approach can lead to more prudent lending practices and less exposure to excessive risk-taking. Female directors often bring different perspectives and experiences to the boardroom, leading to more rigorous oversight of management decisions. They may be more likely to challenge the status quo and question assumptions, which can help to identify potential risks early on (Abobakr and Elgiziry, 2017). Based on it, the study develops following hypothesis:

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

Foreign ownership

Foreign ownership can bring access to new markets and technologies. Foreign investors often have access to new markets and

technologies that can help domestic firms expand their reach and improve their efficiency. This can lead to increased profitability and higher stock prices (Khasawneh and Staytieh, 2017). Foreign investors often demand higher standards of corporate governance from the firms they invest in. This can help to reduce agency costs and make firms more efficient (Mi Choi et al., 2012). When foreign investors invest in a domestic firm, it can signal to other investors that the firm is well-managed and has a promising future. This can boost investor confidence and drive up the stock price (Al-Khouri et al., 2014). Based on it, the study develops following hypothesis:

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

Dividend per share

Arsal (2021) revealed that there is a positive relationship between dividend per share (DPS) and firm value. This means that as DPS increases, firm value also tends to increase. Similarly, Lumapow and Tumiwa (2017) stated that when a company pays dividends, it is signaling to investors that it is profitable and has excess cash flow that it can distribute to shareholders. This can make the company more attractive to investors, which can drive up the stock price. Dividends are often seen as a sign of stability and maturity. This can attract long-term investors, such as pension funds and mutual funds, which tend to hold stocks for the long term. Long-term investors can help to stabilize the stock price and make the company less volatile. (Naceur and Goaied, 2002). Based on it, the study develops following hypothesis:

H_7: There is a positive relationship between dividend per share and firm value.

Dividend payout ratio

Dividends are taxed at a higher rate for individual investors than capital gains. As a result, a high dividend payout ratio can make a company's stock less attractive to individual investors, which can drive down the stock price (Odum et al., 2019). Lumapow and Tumiwa (2017) found that when a company pays out a higher proportion of its earnings as dividends, it has less money available to reinvest in its own growth. This can lead to slower growth in the long run, which can hurt the company's stock price. A high dividend payout ratio can be seen as a signal that a company's management is more concerned with short-term profits than with long-term growth. This can make investors less willing to invest in the company, which can drive down the stock price (Stevens and Jose, 1992). Based on it, the study develops following hypothesis:

H_8: There is a negative relationship between dividend payout ratio and firm value.

3. Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2012/13 to 2021/22.

Table 2

Descriptive statistics

This table shows the descriptive statistics of dependent and independent variables of 10 Nepalese commercial banks for the study period from 2012/13 to 2021/22. The dependent variables are MPPS (Market price per share as measured by the closing stock price of the banks, in Rs) and ROE (Return on equity as measured by the ratio of total net profit to shareholders equity, in percentage). The independent variables are BS (Board size as measured by the number of directors on the board, in numbers), BI (Board independence as measured by the number of independent directors on the board, in numbers), GD (Gender diversity as measured by the number of female directors in the board, in numbers), FO (Foreign ownership as measured by the proportion of ownership held by the foreign institutions, in percentage), DER (Total debt to equity ratio as measured by the ratio of total debt to total equity, in percentage), DPR (Dividend payout ratio as measured by the ratio of total dividend to total income, in percentage), DPS (Dividend per share as measured by the ratio of total dividend to total number of outstanding shares, in Rs) and DAR (Total debt to asset ratio as measured by the ratio of total debt to total assets, in percentage).

Variables	Minimum	Maximum	Mean	Std. Deviation
MPPS	188.00	3385.00	582.56	482.01
ROE	5.96	41.70	15.01	5.57
GO	0.00	2.00	0.58	0.55
BS	5.00	11.00	7.52	1.35
BI	0.00	1.00	0.47	0.50
FO	0.00	5404219212.00	621375398.69	1288385982.22349
DPS	0.00	81674.22	1076.85	8349.79
DPR	0.00	2466.38	48.99	325.50
DER	0.00	260.95	21.87	42.77
DAR	0.00	42.97	2.47	6.28

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 10 Nepalese commercial banks for the study period of 2012/13 to 2021/22. The dependent variables are MPPS (Market price per share as measured by the closing stock price of the banks, in Rs) and ROE (Return on equity as measured by the ratio of total net profit to shareholders equity, in percentage). The independent variables are BS (Board size as measured by the number of directors on the board, in numbers), BI (Board independence as measured by the number of independent directors on the board, in numbers), GD (Gender diversity as measured by the number of female directors in the board, in numbers), FO (Foreign ownership as measured by the proportion of ownership held by the foreign institutions, in percentage), DER (Total debt to equity ratio as measured by the ratio of total debt to total equity, in percentage), DPR (Dividend payout ratio as measured by the ratio of total dividend to total income, in percentage), DPS (Dividend per share as measured by the ratio of total dividend to total number of outstanding shares, in Rs) and DAR (Total debt to asset ratio as measured by the ratio of total debt to total assets, in percentage).

Variables	MPPS	ROE	BS	BI	GD	FO	DPR	DPS	DAR	DER
MPPS	1									
ROE	0.407**	1								
BS	-0.047	-0.119	1							
BI	0.123	0.346**	0.098	1						
GD	0.223**	0.328**	0.087	0.131	1					
FO	0.270**	0.343**	-0.148*	-0.024	0.507**	1				
DPR	-0.109	-0.359**	-0.411**	-0.410**	-0.384**	-0.097	1			
DPS	0.079	0.250**	-0.362**	-0.335**	-0.325**	-0.207**	0.466**	1		
DAR	-0.165*	-0.048	-0.181*	-0.025	0.088	0.035	-0.057	-0.230**	1	
DER	0.062	0.295**	-0.408**	-0.337**	-0.325**	-0.171*	0.396**	0.608**	0.130	1

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

Table 3 that board size is negatively correlated to market price per share. It means increase in board size leads to decrease in market price per share. However, there is a positive relationship between foreign ownership and market price per share. It means that increase in foreign ownership leads to increase in market price per share. Similarly, there is a positive relationship between independent director and market price per share. It means that increase in independent directors leads to increase in market price per share. Similarly, dividend per share is positively correlated to market price per share. It shows that increase in dividend per share leads to increase in market price per share. Similarly, dividend payout ratio is negatively correlated to

market price per share. It shows that increase in dividend payout ratio leads to decrease in market price per share. Similarly, gender diversity is positively correlated to return on equity. It implies that increase in female board directors in the board leads to increase in market price per share. However, there is a negative relationship between debt to assets ratio and market price per share. It shows that increase in debt to assets ratio leads to decrease in market price per share. Further, there is a positive relationship between debt-to-equity ratio and market price per share. It shows that increase in debt to assets ratio leads to increase in market price per share.

On the other hand, board size is negatively correlated to return on equity. It means increase in board size leads to decrease in return on equity. However, there is a positive relationship between foreign ownership and return on equity. It means that increase in foreign ownership leads to increase in return on equity. Similarly, there is a positive relationship between independent director and return on equity. It means that increase in independent directors leads to increase in return on equity. Similarly, dividend per share is positively correlated to return on equity. It shows that increase in dividend per share leads to increase in return on equity. Similarly, dividend payout ratio is negatively correlated to return on equity. It shows that increase in dividend payout ratio leads to decrease in return on equity. Similarly, gender diversity is positively correlated to return on equity. It implies that increase in female board directors in the board leads to increase in return on equity. However, there is a negative relationship between debt to assets ratio and return on equity. It shows that increase in debt to assets ratio leads to decrease in return on equity. Further, there is a positive relationship between debt-to-equity ratio and return on equity. It shows that increase in debt to assets ratio leads to increase in return on equity.

Regression analysis

Having indicated the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 4 and Table 5. More specifically, Table 4 shows the regression results of board size, board independence, foreign ownership, gender diversity, dividend payout ratio, dividend per share, debt to equity ratio and debt to assets ratio on market price per share of Nepalese commercial banks.

Table 4

Estimated regression results of board size, board independence, foreign

ownership, gender diversity, dividend payout ratio, dividend per share, debt to equity ratio and debt to assets ratio on market price per share

The results are based on panel data of 10 commercial banks with 100 observations for the period 2012/13 to 2021/22by using linear regression model. The model is MPPS= $\beta_0 + \beta_1$ BS + β_2 BI+ β_3 FO + β_4 GD + β_5 DPR + β_6 DPS + β_7 DER + β_8 DAR + e_{it} where the dependent variable is MPPS (Market price per share as measured by the closing stock price of the banks, in Rs). The independent variables are BS (Board size as measured by the number of directors on the board, in numbers), BI (Board independence as measured by the number of independent directors on the board, in numbers), GD (Gender diversity as measured by the number of female directors in the board, in numbers), FO (Foreign ownership as measured by the proportion of ownership held by the foreign institutions, in percentage), DER (Total debt to equity ratio as measured by the ratio of total debt to total equity, in percentage), DPR (Dividend payout ratio as measured by the ratio of total dividend to total income, in percentage), DPS (Dividend per share as measured by the ratio of total dividend to total number of outstanding shares, in Rs) and DAR (Total debt to asset ratio as measured by the ratio of total debt to total assets, in percentage).

Model	Intercept	Regression coefficients of								Adj. R_bar^2	SEE	F-value
		BS	BI	GD	FO	DPR	DPS	DAR	DER			
1	0.405 (0.472)	-0.190 (0.973)								0.002	0.426	0.947
2	1.161 (4.823)**		0.029 (1.696)							0.095	0.548	2.876
3	3.158 (8.677)**			0.019 (4.406)**						0.090	0.528	19.415
4	3.034 (7.877)**				2.124 (3.837)**					0.680	0.531	14.723
5	0.605 (0.944)					-0.012 (1.497)				0.007	0.549	2.241
6	1.460 (24.220)**						0.025 (2.287)*			0.022	0.544	5.230
7	1.469 (12.430)**							-0.016 (0.848)		0.001	0.551	0.720
8	2.152 (3.938)**								-0.024 (1.080)	0.001	0.550	1.166
9	-0.136 (0.499)	-0.130 (2.219)*	0.077 (4.747)**							0.252	0.476	22.164
10	2.814 (6.101)**	-0.001 (1.139)	0.034 (2.012)*	0.005 (1.512)	1.690 (2.583)*					0.088	0.526	5.544
11	1.066 (0.953)	-0.005 (0.085)	0.046 (2.569)*	0.005 (1.279)	-1.585 (2.465)*	-0.015 (1.577)	0.029 (2.771)**			0.122	0.516	5.366
12	1.172 (1.015)	-0.001 (0.052)	0.044 (2.368)*	0.005 (1.322)	1.620 (2.488)*	-0.015 (1.598)	0.030 (2.789)**	-0.009 (0.384)	-0.066 (2.181)*	0.136	0.511	4.702

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 4 shows that the beta coefficients for board size are negative with market price per share. It indicates that board size has a negative impact on market price per share. This finding is similar to the findings of Eisenberg et al. (1998). Similarly, the beta coefficients for gender diversity

are positive with market price per share. It indicates that gender diversity has a positive impact on market price per share. This finding is consistent with the findings of Birindelli et al. (2020). Likewise, the beta coefficients for board independence are positive with market price per share. It indicates that the board independence has a positive impact on market price per share. This finding is similar to the findings of Sasidharan (2020). Similarly, the beta coefficients for foreign ownership are positive with market price per share. It indicates that the foreign ownership has a positive impact on market price per share. This finding is consistent with the findings of Khasawneh and Staytieh (2017). However, the beta coefficients for debt to assets ratio are negative with market price per share. It indicates that debt to assets ratio has a negative impact on market price per share. This finding is similar to the findings of Cuong and Canh (2012).

Table 5 shows the regression results of board size, board independence, foreign ownership, gender diversity, dividend payout ratio, dividend per share, debt to equity ratio and debt to assets ratio on return on equity of Nepalese commercial banks.

Table 5

Estimated regression results of board size, board independence, foreign ownership, gender diversity, dividend payout ratio, dividend per share, debt to equity ratio and debt to assets ratio on return on equity

The results are based on panel data of 10 commercial banks with 100 observations for the period 2012/13 to 2021/22by using linear regression model. The model is ROE= β_0 + β_1 BS + β_2 BI+ β_3 FO + β_4 GD + β_5 DPR + β_6 DPS + β_7 DER + β_8 DAR + e_{it} where the dependent variable is ROE (Return on equity as measured by the ratio of total net profit to shareholders equity, in percentage). The independent variables are BS (Board size as measured by the number of directors on the board, in numbers), BI (Board independence as measured by the number of independent directors on the board, in numbers), GD (Gender diversity as measured by the number of female directors in the board, in numbers), FO (Foreign ownership as measured by the proportion of ownership held by the foreign institutions, in percentage), DER (Total debt to equity ratio as measured by the ratio of total debt to total equity, in percentage), DPR (Dividend payout ratio as measured by the ratio of total dividend to total income, in percentage), DPS (Dividend per share as measured by the ratio of total dividend to total number of outstanding shares, in Rs) and DAR (Total debt to asset ratio as measured by the ratio of total debt to total assets, in percentage).

Model	Intercept	Regression coefficients of								Adj. R_bar^2	SEE	F-value
		BS	BI	GD	FO	DPR	DPS	DAR	DER			
1	14.014 (16.254)**	-0.011 (1.640)								0.009	4.458	0.064
2	27.018 (11.441)**		-0.858 (5.051)**							0.115	5.272	25.511
3	40.436 (11.527)**			0.294 (7.217)**						0.215	5.087	52.084
4	34.647 (8.885)**				28.010 (4.998)**					0.113	5.381	24.982
5	-17.560 (2.810)**					-0.395 (5.262)**				0.124	5.346	27.685
6	15.571 (24.583)**						0.075 (0.662)			0.003	5.721	0.438
7	10.588 (9.016)**							-0.814 (4.224)**		0.082	5.473	17.843
8	-4.136 (0.751)								0.780 (3.529)**	0.057	5.546	12.455
9	25.923 (10.869)**	-0.014 (2.269)*	0.896 (5.305)**							0.135	5.314	15.614
10	45.931 (10.644)**	-0.012 (2.025)*	0.850 (5.375)**	0.076 (2.257)*	20.099 (3.283)**					0.259	4.918	17.417
11	9.149 (0.889)	-0.022 (3.479)**	0.592 (3.559)**	0.035 (1.000)	19.985 (3.375)**	-0.340 (3.921)**	0.035 (0.360)			0.309	4.748	15.025
12	2.816 (0.269)	-0.028 (4.178)**	0.477 (2.806)	0.020 (0.588)	17.914 (3.040)**	-0.324 (3.773)**	0.010 (0.105)	-0.513 (2.522)*	0.084 (0.304)	0.329	4.679	14.166

Notes:

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

Table 5 shows that the beta coefficients for board size are negative with return on equity. It indicates that board size has a negative impact on return on equity. This finding is similar to the findings of Mak and Kusnadi (2005). Similarly, the beta coefficients for gender diversity are positive with return on equity. It indicates that gender diversity has a positive impact on return on equity. This finding is consistent with the findings of Agyemang-Mintah and Schadewitz (2019). Likewise, the beta coefficients for board independence are positive with return on equity. It indicates that the board independence has a positive impact on return on equity. This finding is similar to the findings of Mohapatra (2016). Similarly, the beta coefficients for foreign ownership are positive with return on equity. It indicates that the foreign ownership has a positive impact on return on equity. This finding is consistent with the findings of Al-Khouri et al. (2014). Moreover, the beta coefficients for dividend payout ratio are negative with return on equity. It indicates that dividend payout ratio has a negative impact on return on equity. This finding is similar to the findings of Lumapow and Tumiwa (2017). However, the beta coefficients for debt to assets ratio are negative with return on equity. It indicates that debt to assets ratio has a negative impact on return on equity. This finding is similar

to the findings of Suhendry et al. (2021).

4. Summary and conclusion

Corporate governance (CG) also has tendency to affect the decision which are very long term in the organization. The fundamental objective of corporate governance is to enhance transparency and transparency enhances accountability along with growth. The value of the company is very important to be considered by banking management because it can affect investors' perceptions of the company. Company value not only reflects how intrinsic value is at the moment but also reflects prospects and expectations of the company's ability to increase the value of its wealth in the future.

This study attempts to the effect of corporate governance, leverage and dividend policy on the firm value of Nepalese commercial banks. The study is based on secondary data of 10 Nepalese commercial banks with 100 observations for the study period from 2012/13 to 2021/22.

The study showed that board independence, foreign ownership, gender diversity, dividend per share and debt to equity ratio have positive effect on market price per share and return on equity in the context of Nepalese commercial banks. However, board size, debt to assets ratio and dividend payout ratio have negative effect on market price per share and return on equity. The study showed that corporate governance, leverage and dividend policy have significant influence on firm value of Nepalese commercial banks. Likewise, the study concluded that gender diversity followed by foreign ownership is the most influencing factor that explains the changes in market price per share. Likewise, the study also concluded that the most dominant factor that determines the return on equity in the context of Nepalese commercial banks is gender diversity.

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