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Impact of Corporate Governance on Perceived Performance of Manufacturing Industries of Nepal

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Abstract

The aim of this research is to examine how corporate governance affects the perceived performance of manufacturing industries in Nepal. The study utilized a descriptive and causal comparative research approach. Key aspects of corporate governance identified include commitment to governance, transparency and disclosure, and the structure and operation of the board. Meanwhile, productivity and profitability were treated as control variables, both serving as dependent variables for assessing industry performance. The analysis encompassed all 19 manufacturing industries listed on the Nepal Stock Exchange. To achieve the study's objectives, judgmental sampling was employed from a non-probability sampling method, while purposive sampling was used to choose respondents who completed the questionnaires. Out of the total 19 industries, only five were selected for the sample. Participants included selected financial and marketing professionals from these companies, with 100 respondents from the five industries completing the questionnaire. The data collected were analyzed through a multiple linear regression model. The results demonstrated that strong corporate governance positively impacts a company's performance.

Keywords: *Corporate governance (CG), performance, manufacturing industry, commitment to corporate governance (CCG), structure and functioning of the board (SFB), productivity, profitability*

Introduction

Governance is the method of overseeing an organization, where corporate governance integrates fairness, accuracy, accountability, and sustainability. Effective governance is vital for enhancing organizational performance and ensuring long-term growth. In the manufacturing sector, inadequate governance has played a major role in causing the recent financial crisis. Strong corporate governance bolsters the economy and supports socio-economic progress. Transparency and disclosure are essential components in the manufacturing industry, offering stakeholders the information they need to evaluate their interests (Tiwari, 2022).

Corporate governance is the set of rules, policies, and processes that guide and control a company by encompassing the use of best practices in management, adherence to legal requirements and ethical standards for effective management and

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distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders (Bob, 1984).

Corporate governance is the set of regulations that govern how a company is run. It's crucial to balance the interests of various stakeholders, such as shareholders, executive management, suppliers, customers, financiers, the government, and the community. This is the essence of corporate governance (Chen, 2021). Corporate governance conducting business in accordance with the wishes of the owners or shareholders, which are often to make as much money as possible while adhering to the basic laws of society embodied in legislation and local conventions (Friedman, 1970). Company is a business entity formed with the goal of generating wealth and value. It operates within an extensive network of stakeholders and establishes legal and commercial framework for the firm's (Clarkson, 1995).

Statement of the Problem

The manufacturing industry has experienced rapid growth since the opening up of economy. However, certain sectors continue to face challenges related to transparency and profitability. A robust disclosure framework is crucial for overseeing the market and protecting shareholders' rights. Greater corporate transparency can benefit companies, safeguard investor interests, attract investment, and maintain confidence in the market. When there is a lack of clarity or adequate information, it can hinder market functions, increase capital costs, and lead to inefficient allocation of resources. Given this context, this study aims to address the following key points:

1. To assess the corporate governance practices in Nepalese manufacturing sectors.
2. To assess the influence of corporate governance on the perceived performance of Nepalese manufacturing sectors.

Objectives of the Study

This study explores the significance of transparent disclosure in maintaining market efficiency and preventing inefficient resource allocation.

1. What are the corporate governance practices observed in Nepal's manufacturing industries?
2. How is the performance of the manufacturing sector viewed in Nepal?

Significance of the Study

Research into corporate governance suggests that board size does not significantly influence the financial performance of commercial banks in Ethiopia (Rao & Desta, 2016). However, this relationship merits attention. The financial media and mainstream outlets consistently focus on corporate governance, particularly in light of the 2008 financial crisis and the issues surrounding Wells Fargo and Equifax. Elements such as governance features, ownership structures, and company attributes play a crucial role in how information is disseminated. There is a noteworthy link between firm size and the agricultural sector regarding voluntary disclosure practices.

In Nepal, limited research exists on corporate governance in commercial banks, but a clear relationship can be seen between a firm's governance and its performance across different industries. This study intends to analyze corporate governance practices and their influence on how the manufacturing sector's performance is viewed, thus contributing to existing literature and enhancing comprehension in this field. Additionally, unpublished action research related to corporate governance may be available in public forums.

Review of Literatures

Blair (1995) explained that managers should aim to increase the overall revenue generated by the organization by engaging reliable partners who either contribute to or oversee essential concepts (special human capital) and by creating stakeholders who align with the company's interests.

Nugroho (2021) determined that macroeconomic factors affect financial risk management as well as effectiveness of corporate governance (GCG), among other areas. To begin with, macroeconomic conditions have a limited influence on financial risk management. Next, effective corporate governance hardly affects audit opinions regarding going concern situations. Additionally, stock returns have a slight connection to these audit opinions. Lastly, strong corporate governance does not reduce the effect of stock returns on going concern audit assessments.

Kabeyi (2020) concluded by examining data from 147 manufacturing firms listed on the Indonesian Stock Exchange. Effective corporate governance in business management steers companies towards improved accountability, integrity, and product excellence. Conversely, unethical conduct can result in governance breakdowns, which makes legislation and self-regulation essential. Business ethics guide organizations in making principled decisions, while corruption serves as a major sign of governance shortcomings. This insight was derived from an analysis of the data concerning Enron and Volkswagen Corporations in the year 2020. Profitability within organizations is largely influenced by management's efficiency, while external economic factors have little impact (Haidary & Abbey, 2018). There is an inverse relationship between the size of the board and the performance of the; elements like board independence and the frequency of meetings can strengthen the link between return on equity and return on assets, acting as instruments for corporate governance (Palaniappan, 2017). Enhanced internal governance leads to greater productivity within companies. This finding was derived from an analysis of 1,080 firms in Australia (Tian & Twite, 2011).

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Methodology

The study is grounded in descriptive and causal comparative research methods. The target population encompasses all 19 manufacturing sectors registered on the Nepal Stock Exchange (NEPSE). From these, five industries were chosen as samples through a convenience sampling method. The focus of this study is on the relationship between corporate governance and the perceived performance of manufacturing industries in Nepal. It specifically assesses the impact of independent variables on the performance of these industries. Himalayan Distillery Limited, Shivam Cement Limited, Bottlers Nepal (Balaju) Limited, Nepal Lube Oil Limited, and Ghorahi Cement Industries are selected as samples. Selected financial officers and marketing officers of industries are respondents for the study. Altogether, 100 respondents were taken to fill out the out the questionnaire. Data were analyzed using a multiple linear regression model.

Model Specification

The model suggests that manufacturing industries' performance is primarily influenced by three corporate governance factors: commitment to corporate governance, transparency and disclosure, and the structure and functioning of the board.

$\hat{Y} = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + ei$

$\hat{Y}1 = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + ei$

$\hat{Y}2 = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + ei$

Where,

$\hat{Y}$ = Perceived performance

$\hat{Y}1$ = Productivity (Dependent Variable) $\hat{Y}2$ = Profitability (Dependent Variable)

X1 = Commitment to corporate governance (Independent variable) X2 = Structure and functioning of the board (Independent variable)X3 = Transparency and disclosure (Independent variable)

α = Constant

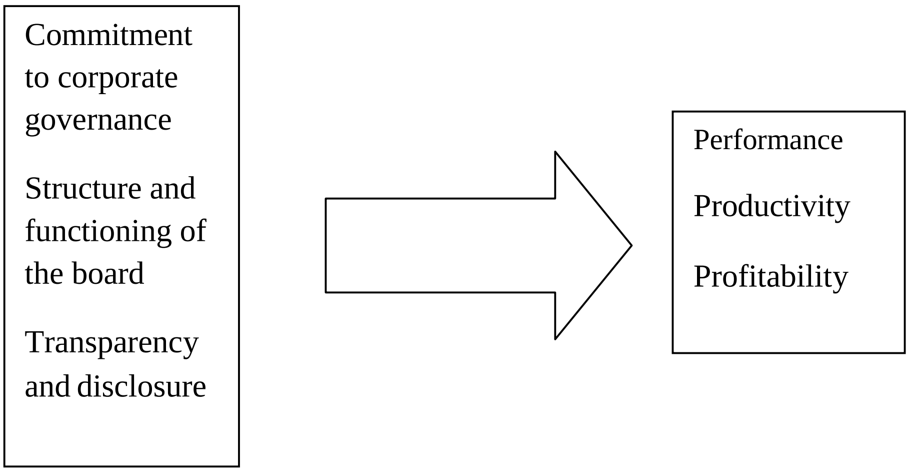
$\beta 1$, $\beta 2$, and $\beta 3$ are regression coefficients of factor 1, factor 2, and factor 3 respectively.ei = Error Term

Conceptual Framework

The framework outlines the relationship between performance and corporate governance, with profitability and productivity as dependent variables. The independent variables include commitment to corporate governance, board structure, and transparency and disclosure. These models form the basis for the research description.

Figure 1 *Conceptual Model*

Independent variables **Dependent variables**



(Tiwari, 2022)

Commitment to Corporate Governance (CCG)

Commitment is defined as the dedication and readiness to engage in a project or organization, leading to loyalty allegiance. Research involving 152 participants from five diverse organizations in Bangladesh indicated that organizational commitment positively influences performance outcomes (Rahman et al., 2022). Both the board and management are devoted to upholding strong corporate governance principles, emphasizing transparency, accountability, and independence (Najm et al., 2022).

H1: Commitment to corporate governance has significantly positive relationship with perceived performance of manufacturing industries.

Structure and functioning of the board (SFB)

The primary role of the board is to plan and establish short- and long-term goals for a company while also implementing tracking procedures. The structure of the organization is crucial for all functions, and board directors must analyze and discuss the company's objectives. Both internal and external mechanism of the

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organization are crucial to achieve organizational goal. The board's structure directly impacts the firm's performance, making it an independent variable in the study (John & Senbet, 1998).

H2: The structure and functioning of the board have a significantly positive correlation with perceived performance in manufacturing industries.

Transparency and disclosure (TD)

Transparency and disclosure in corporate has become closely linked with effective governance, highlighting its significant value and direct positive impact in organizational performances. Nonetheless, transparency might obscure more than it reveals, leaving the authority and insight regarding corporate conduct firmly within the hands of the companies themselves (Janning et al., 2020).

H3: Transparency and disclosure has significantly positive relationship with perceived performance of manufacturing industries.

Productivity

Productivity is generally described as the ratio of output to input volume. In other words, it assesses how effectively production inputs such as labour and capital are employed in an economy to generate a certain amount of output. Financial performance, ownership structure, and board attributes play a crucial role in influencing productivity (Rashid et al. 2020).

H4: Productivity is positively influenced with CCG, SFB and TD.

Profitability

Profitability is a measure of efficiency that ultimately determines a company's success or failure. Another meaning of profitability is a company's capacity to generate a return on an investment using its resources in comparison to an alternative investment. Firms with low ownership concentration show low firm profitability (Joh 2003).

H5: Profitability is positively influenced with CCG, SFB and TD.

Analysis of the data

The Spearman's correlation analysis is used to determine the relationship between capital structure and organizational success. SPSS version 25 was used to conduct the analysis, which yielded the following results.

Table 1 *Correlation Analysis*

	Corporate Governance	Organizational Performance
Corporate Governance	1	
Organizational **Performance	0.935	1

** Correlation is significant at the 0.01 level (2-tailed)

Table 1 illustrates the connection between corporate governance and organizational performance. The correlation matrix indicates that the variables are statistically significant at the 0.05 level, with a p-value below 0.01. The correlation coefficient between corporate governance and organizational performance is 0.935, accompanied by a p-value of 0.00, signifying a strong positive relationship.

Model Summary of Regression Analysis

The analysis of presented model summary gives various results of correlation coefficients afterconsidering a set of data.

Productivity with CCG, SFB, and TD

Table 2 *Regression Analysis*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.923[a]	.851	.847	.35422

a. Predictors: (Constant), TD, CCG, SFB

The model summary reports the R-square value, or coefficient of determination, which aids in understanding the variation. Table 2 indicated an R-square value of 0.851, indicating that variation in productivity with CCG, SFB, and TD can be explained by 85.1%. However, the remaining 14.9% is unexplained in this study. In other words, this study did not take into account all of the independent variables that influence productivity.

Table 3 *Analysis of Variance*

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	69.062	3	23.021	183.474	.000[b]
Residual	12.045	96	.125		
Total	81.107	99			

a. Dependent Variable: Productivity; Predictors: (Constant), TD, CCG, SFB

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Based on table 3, the p-value is 0.000, which is less than the alpha level of 0.05. This suggests that the model effectively predicts the relationship between productivity, TD, CCG, and SFB.

Table 4 *Impact of CCG, SFB, and TD on Productivity*

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.079	.189		.418	.677
CCG	.061	.092	.053	.662	.510
SFB	-.179	.113	-.155	-1.581	.117
TD	1.107	.089	1.014	12.474	.000

a. Dependent Variable: Productivity

Regression line

Productivity = 0.079 +0.061 CCG - 0.179 SFB + 1.107TD

In regression analysis, beta coefficients highlight the significance of independent variables in explaining the variance of the dependent variable. Table 4 reveals that CCG and TD are positively associated with productivity, whereas SFB is negatively associated with productivity. It means that positive improvements in CCG and TD lead to positive changes in productivity, whereas positive changes in SFB lead to inverse changes in productivity of the industries, assuming all other variables remain constant.

Profitability with CCG, SFB, and TD

Table 5 *Regression Analysis profitability*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905[a]	.820	.814	.37613

a. Predictors: (Constant), TD, CCG, SFB

The model summary presents the R-square value, which is also known as the coefficient of determination, helping to clarify the variation. Table 5 shows an R-square value of 0.820, implying that 82% of the variation in profitability can be explained by CCG, SFB, and TD. However, the remaining 18% is unexplained in this study. In other words, this study did not take into account all of the independent variables that influence profitability.

Table 6 *Analysis of Variance*

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	61.808	3	20.603	145.628	.000[b]
Residual	13.582	96	.141		
Total	75.390	99			

a. Dependent Variable: Profitability
b. Predictors: (Constant), TD, CCG, SFB

Based on table 6, the p-value is 0.000, which is less than the alpha level of 0.05. This suggests that the model effectively predicts the relationship between profitability, TD, CCG, and SFB.

Table 7 *Impact of CCG, SFB, and TD on Profitability*

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.067	.201		-.334	.739
CCG	.264	.097	.238	2.709	.008
SFB	.528	.120	.476	4.400	.000
TD	.248	.094	.236	2.635	.010

a. Dependent Variable: Profitability

Regression line

Profitability = -0.067 +0.264 CCG + 0.528 SFB + 0.248 TD

The beta coefficient is used in regression analysis to explain the relative relevance of the independent variables in terms of their contributions to the variable of dependent variance. Table 7 indicates that CCG, SFB, and TD have a positive effect on the profitability of industries. It means that positive changes in CCG, SFB, and TD lead to a positive change in the profitability of industries if all other factors remain constant.

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Organizational performance with CCG, SFB, and TD

Table 8 Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.951[a]	.904	.901	.26326

a. Predictors: (Constant), TD, CCG, SFB

The model summary presents the R-square value, or coefficient of determination, which can assist in explaining the variation. Table 8 indicated an R-square value of 0.901, indicating that variation in organizational performance with CCG, SFB, and TD can be explained by 90.10%. However, the remaining 9.90% is unexplained in this study. In other words, this study did not take into account all of the independent variables that influence organizational performance.

Table 9 *Analysis of Variance*

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	62.352	3	20.784	299.884	.000[b]
Residual	6.653	96	.069		
Total	69.005	99			

a. Dependent Variable: organizational performance
b. Predictors: (Constant), TD, CCG, SFB

Based on table 9, the p-value is 0.000, which is less than the alpha level of 0.05. This suggests that the model effectively predicts the relationship between organizational performance, TD, CCG, and SFB.

Table 10 *Regression Coefficient*

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	.006	.141		.043	.966
CCG	.162	.068	.153	2.381	.019
SFB	.175	.084	.165	2.079	.040
TD	.678	.066	.673	10.275	.000

a. Dependent Variable: organizational performance

Regression line

Organizational Performance = 0.006 +0.162 CCG+ 0.175 SFB + 0.678 TD

The beta coefficient is used in regression analysis to explain the relative relevance of the independent variables in terms of their contributions to the variable of dependent variance. Table 10 indicates that CCG, SFB, and TD have a positive effect on the organizational performance. It means that positive changes in CCG, SFB, and TD lead to a positive change in the organizational performance of manufacturing industries if all other factors remain constant.

Conclusion

This study has been conducted to determine the influence of corporate governance on the perceived performance of manufacturing industries in Nepal. The findings indicate that effective corporate governance practices are essential for the success of organizations in the manufacturing sector. Most respondents demonstrated a clear understanding of the concepts of TD, SFB CCG, and CG. Their responses indicate that these industries are striving to maintain acceptable levels of corporate governance. The study showed that the status of TD, SFB, and CCG within manufacturing industries are at satisfactory levels, benefiting the companies. Employee responses suggest that these industries are well-organized in their planning, processes, resources, and controls, contributing to their success. Manufacturing companies have experienced their own organizational achievements. In summary, this study confirms that corporate governance has a significant impact on organizational success. Finding concludes that effective corporate governance practices are vital for any organization's performance. By prioritizing corporate governance, a company's management can pave the way to success.

Implications

The study shows that leaders in the manufacturing industry need to adopt strong corporate governance practices to stay competitive. It recommends developing clear strategies that consider the specific context of their organizations and adapting to effective success frameworks. The research emphasizes the need for strategic advisory support and ongoing evaluations. Furthermore, it calls for additional research to generate new hypotheses and variables, as well as to examine the influence of geographical factors and global economic downturns on corporate governance decisions.

Authors Contribution

R K T: Concept, design, data collection, finalization of draft

U K T: data analysis, draft, finalization of draft

Conflict of Interests

Authors have no conflicts of interest.

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