CORPORATE GOVERNANCE, RISK TAKING AND PROFITABILITY OF NEPALESE COMMERCIAL BANKS

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Abstract

This study examines the effect of corporate governance on risk taking and profitability of Nepalese commercial banks. Return on assets (ROA) and risk level are the dependent variables. The independent variables are board size, board meetings, female directors, board independence, audit committee size, and bank size. This study is based on secondary data of 25 commercial banks with 125 observations for the period of 2012/13 to 2016/17. The data are collected from the annual reports of the selected commercial banks and banking and financial statistics published by Nepal Rastra Bank. The regression models are estimated to test the significance and importance of corporate governance, risk taking and profitability of Nepalese commercial banks.

The result shows that board meeting, female director, board independence, members in audit committee and total assets are positively correlated with return on assets. It indicates that increase in board meeting, female director, board independence, members in audit committee and total assets leads to increase in return on assets. However, the result shows that board size is negatively correlated to return on assets. The study reveals that board size, female director, board independence, and members in audit committee are positively related to risk level while board meeting and total assets are negatively related to risk level. This indicates that increase in board size, female director, board independence, and members in audit committee leads to increase in risk level. However, increase in board meeting and total assets leads to increase in risk level. The regression result also shows that board independence, members in audit committee and total assets have positive impact on return on assets. On the other hand, female director has positive impact on risk level. However, the coefficients are significant only for board independence and total assets at 5 percent level.

Keywords: *Board size, board independence, female director, audit committee size, number of board meeting, total assets, return on assets, risk level.*

I. Introduction

The banking sector plays a crucial financial intermediary role in any economy. The 1997- 1998 economic crises in the Asian countries highlighted the importance of corporate governance (Adnan et al., 2011). Poor corporate governance of the banks can drive the market to lose confidence (García-Marco & Robles-Fernández, 2008). Corporate governance is defined as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business knowledge, objectivity, accountability and integrity (Mang'unyi, 2011). It is difficult to define the concept of corporate governance in a universally acceptable way because definitions vary from country to country. Moreover, countries differ from each other in terms of culture, legal systems and historical developments (Ramon, 2001). This explains why there is a wide range of definitions of the concept of corporate governance. Shleifer & Vishny (1997) defined corporate governance in terms of the ways in which suppliers of finance to a firm assure themselves of a good return to their investment.

Corporate governance measures like board structure, compensation structure and ownership structure are determined by one another, and by variables such as risk, cash flows, firms' size and regulations influence a firm' s performance (Jensen and Meckling, 1976). Firm risk has a role to play in firm performance because firms that take more risk generally have higher (although volatile) returns. These risks are generally related to the returns on the firm's stocks (Bloom and Milkovich, 1998). However, firm-specific risks are also directly related to the performance of the firm (Nguyen, 2011). Firms that engage in risky projects are expected to yield better returns that those which lack the appetite to take risks. However, excessive risk taking may prove to be fatal for a firm. Corporate governance differs significantly in developed and developing countries (Rabelo and Vasconcelos, 2002).

Given that corporate governance is essentially a mechanism for controlling risk within the bank, it is not surprising that the recent studies have emphasized the importance of effective corporate governance practices in the banking industry (Elyasiani and Zhang, 2015; Srivastav and Hagendorff, 2015). Some studies argue that banks with better governance have lower risk taking (Ellul and Yerramilli, 2013; De Andres and Vallelado, 2008). Yet, other studies claim that banks with more favorite shareholders governance associate with higher risk taking (Erkens et al., 2012; Wang and Hsu, 2013). Moreover, the same governance may have different effects on bank risk taking depending on the bank's ownership structure (Laeven and Levine, 2009; Adams and Mehran, 2012), and board composition (Pathan, 2009). Some studies emphasize that flaws in corporate governance play a key role in bank risk taking (Srivastav and Hagendorff, 2015; Williams, 2014; Minton et al., 2014). Srivastav and Hagendorff (2015) argued the need for effective bank governance to mitigate the behavior, harming the interest of different stakeholders and exacerbating risk taking, which reflect the needs of shareholders, creditors and the taxpayer.

Kyereboah-Coleman and Biekpe (2006) found a positive relationship between board size and bank performance. Staikouras (2007) revealed that board size is negatively related to bank performance, while board composition has no impact on bank performance. Andres and Vallelado (2008) found an inverted U-shaped relationship between bank performance and board size, and between bank performance and board independence. Chahine and Safieddine (2011) found that board size is negatively related to bank performance. Berger et al. (2014) observed that default banks (due to excessive risk-taking) have smaller boards and fewer independent directors relative to their board size than non-default banks. Luu (2015) revealed that bank with a large board of directors is associated with less risk-taking.

According to Hagendorff et al. (2010), board independence and diversity improve bank performance, but only in countries with strict banking regulation regimes. Adams and Mehran (2011) revealed that board size is positively related to bank performance, while independence is not related to performance. Farrell and Hersch (2005) showed an inverse link between firm risk and female directors. Likewise, Berger et al. (2014) demonstrated that banks take on more portfolio risk if they are managed by younger executives and as higher proportion of female executives, while board changes increase executives holding PhD degree would reduce portfolio risk. Siele (2009) found that gender variation in the board produces effectiveness, productivity and value creation in an organization. Similarly, Fonda and Sassalos (2000) argued that presence of women in the position of CEO and directors plays a significant role in increasing value to different stakeholders

Al-Matari et al. (2013) revealed that audit committee size was found to have a significant relationship with company performance. Audit committee that has more independent members will provide good monitoring of management policies, including risk-taking activities. In addition, independent members have an interest to enhance their reputation as good observers (Yatim, 2009). Therefore, an independent member will support the establishment of the risk management committee to help maximize the function of monitoring, particularly in risk management. Yatim (2009) asserted that the independence of the audit committee has a positive and significant relationship with the formation of the company's risk management committee. Drogalas et al. (2016) concluded that corporate governance is positively associated to the audit committees.

In the context of Nepal, corporate governance practices greatly impacts both the ROA and ROE of the companies and ultimately the firm's financial performance (Lama et al., 2015). Pradhan (2014) revealed that there is a significant impact of corporate governance on bank performance. Pradhan & Adhikary (2009) revealed that, corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporations. Thapa (2008) revealed that fundamental objective of corporate governance reforms is to enhance transparency and transparency enhances accountability. Pandey (2015) found that capital adequacy ratio and return on assets have negative relationship with non-performing loans, while bank size has positive relationship with non-performing loans. Shrestha (2014) showed that aggregate non-performing loan of Nepalese commercial banks is in decreasing trend.

The above discussion reveals that there is no consistency in the findings of various studies concerning the corporate governance, risk taking and profitability of Nepalese commercial bank. Therefore, this study has been conducted to analyze the impact of corporate governance on risk taking and profitability of Nepalese commercial bank. Specifically, it examines the relationship of board size, board independent, female directors, audit committee, and board meeting with profitability and risk taking.

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 conclusions and discusses the implications of the study findings.

II. Methodological aspects

The study is based on secondary data which were gathered from 25 Nepalese commercial banks from 2012/13 to 2016/17, leading to a total of 125 observations. The main sources of data include annual reports of the selected commercial banks and Banking and Financial Statistics published by Nepal Rastra Bank. Table 1 shows the number of commercial banks selected for the study along with the study period and number of observations.

Table 1: Number of commercial banks selected for the study along with study period and number of observations

S.N	Name of banks	Study period	Observation
1	Agricultural Development Bank Limited	2012/13 to 2016/17	5
2	Citizens Bank International Limited	2012/13 to 2016/17	5
3	Everest Bank Limited	2012/13 to 2016/17	5
4	Himalayan Bank Limited	2012/13 to 2016/17	5
5	Kumari Bank Limited	2012/13 to 2016/17	5
6	Laxmi Bank Limited	2012/13 to 2016/17	5
7	Machhapuchchhre Bank Limited	2012/13 to 2016/17	5
8	Nabil Bank Limited	2012/13 to 2016/17	5
9	Nepal Credit and Commerce Bank Limited	2012/13 to 2016/17	5
10	Nepal Bangladesh Bank Limited	2012/13 to 2016/17	5
11	Nepal Investment Bank Limited	2012/13 to 2016/17	5
12	Nepal SBI Bank Limited	2012/13 to 2016/17	5
13	NMB Bank Limited	2012/13 to 2016/17	5
14	Prime Commercial Bank Limited	2012/13 to 2016/17	5
15	Sanima Bank Limited	2012/13 to 2016/17	5
16	Siddhartha Bank Limited	2012/13 to 2016/17	5
17	Standard Chartered Bank Nepal Limited	2012/13 to 2016/17	5
18	Sunrise Bank Limited	2012/13 to 2016/17	5
19	Century Commercial Bank Limited	2012/13 to 2016/17	5
20	Global IME Bank Limited	2012/13 to 2016/17	5
21	NIC Asia Bank Limited	2012/13 to 2016/17	5
22	Prabhu Bank Limited	2012/13 to 2016/17	5
23	Civil Bank Limited	2012/13 to 2016/17	5
24	Mega Bank Limited	2012/13 to 2016/17	5
25	Janata Bank Limited	2012/13 to 2016/17	5
	Total number of observation		125

Thus, the study is based on the 125 observations.

The model

The model used in this study assumes that the profitability and risk taking of commercial banks depend on board size, board independence, female directors, audit committee, board meetings and total assets (bank size). Therefore, the model takes the following forms:

ROA $= \beta_0 + \beta_1 BS + \beta_2 BRDIND + \beta_3 FD + \beta_4 AC + \beta_5 NOM + \beta_6 TA + \varepsilon$

RL $= \beta_0 + \beta_1 BS + \beta_2 BRDIND + \beta_3 FD + \beta_4 AC + \beta_5 NOM + \beta_6 TA + \varepsilon$

Where,

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

RL   = Risk level, nonperforming loans to total loans, in percentage.

BS   = Board size, defined as is the number of directors on the board.

BI   = Board independence, defined as number of outside board directors on the board.

FD   = Female director, defined as the number of women directors on the board.

AC   = Audit committee size, defined as the number of member in audit committee.

BM   = Board meetings, defined as number of board meetings held in a year.

TA   = Bank size, defined in terms of total assets, in percentage.

The following section describes the independent variables used in this study.

Board size

Belkhir (2009) found a positive relationship between board size and bank performance as measured by Tobin's Q and return on assets. Kyereboah-Coleman and Biekpe (2006) revealed a positive relationship between board size and bank performance. Andres and Vallelado (2008) showed an inverted U-shaped relationship between bank performance and board size. Jensen (1993) argued that when board size increase above seven or eight, the efficiency of board decreases and CEO of the company lose control on the board. Guest (2009) revealed that there is strong negative impact of board size on financial sustainability measured by ROA, Tobin's Q and share returns. Based on it, the study develops the following hypothesis:

H_1: *There is a negative relationship between board size and bank profitability.*
H_2: *There is a positive relationship between board size and bank risk taking.*

Board independence

Board independence refers to a state in which all of the members of a board of directors do not have a relationship with the company other than as directors. Beasley (1996) and Rosenstein and Wyatt (1997) show that outside directors are directly related to the strength and independence of the board. Core et al. (1999) revealed that proportion of inside directors on the board is inversely related to board strength. Simpson and Gleason (1999) found that a bank is less likely to get into financial distress when the CEO is also the chairman of the board, while board size and independence have no impact on the probability of getting into financial distress. Based on it, the study develops the following hypothesis:

H_3: *There is a positive relationship between board independence and bank profitability.*
H_4: *There is a negative relationship between board independence and bank risk taking.*

Female directors

Siele (2009) found that gender variation in the board produces effectiveness, productivity and value creation in an organization. The study also showed that more female directors lead to better firm performance. Adams & Ferreira (2009) found that female directors have better attendance records than male directors and presence of female directors has positive impact on firm performance. Mijntje (2013) revealed that women directors have positive impact on the board performance. Adams and Funk (2012) find evidence that female board members are more risk loving than their male counterparts. Based on it, the study develops the following hypothesis:

H_5: There is a positive relationship between female directors and bank profitability.
H_6: There is a positive relationship between female directors and bank risk taking.

Audit committee size

It has been suggested that knowledgeable audit committees help enhance the company's performance (Zabri et al. 2016). Dalton et al. (1999) reported that audit committees become ineffective if they are either too small or too large. Aldamen et al. (2012) examination of the effect of audit committee characteristics on performance during the financial crisis concluded that smaller committees with more experience and financial expertise were positively and significantly associated with company performance in the market. Based on it, the study develops the following hypothesis:

H7: There is a negative relationship between audit committee size and bank profitability.
H8: There is a positive relationship between audit committee and bank risk taking.

Number of board meetings

The annual number of meetings per year has a positive relation with the NPL. If board meetings are held frequently, more discussion will be held on problems and prospects of business and business can be expected to run more efficiently (Pradhan, 2014). Todorovic (2013) revealed that the number of board meetings has negative impact on the financial performance. Conger et al (1998) believed that board time is an important resource for improving effectiveness of board. This implies that when board of directors meet frequently they are likely to reduce or manage bank risk. Based on it, the study develops the following hypothesis:

H_9: There is a positive relationship between number of board meeting per year and bank profitability.
H_{10}: There is a negative relationship between number of board meeting per year and bank risk taking.

Total assets (bank size)

Bino and Tomar (2008) found positive effect of bank size on bank performance. Sudin (1996) found a positive impact of bank size in terms of total assets on profitability of commercial banks. Arif et al (2013) revealed that bank size has a positive impact on profitability of commercial banks in Pakistan. The regression analysis also revealed a positive and significant impact of bank size in terms of total assets on profitability for the group of large size commercial banks. Aggarwal and Jacques (2001) found that there is negative relationship between size and bank capitalization was mainly explained by the direct and easy access to major banks in capital markets, the larger bank size is, the lower risk level is. Altunbas et al. (2007) found that bank size has a positive impact on bank risk for all types of banks except commercial banks for which relation is negative. Based on it, the study develops the following hypothesis:

H_{11}: There is a positive relationship between bank size and bank profitability.
H_{12}: There is a negative relationship between bank size and bank risk taking.

III. Results and discussion

Descriptive statistics

Table 2 presents the descriptive statistics of selected dependent and independent variables during the period 2009/10 to 2016/17.

Table 2: Descriptive statistics

ROA (return on assets, defined as ratio of net income to total assets, in percentage) and RL (risk level, nonperforming loans to total loans, in percentage) are dependent variables. The independent variables are BS (board size, defined as is the number of directors on the board), BI (board independence, defined as number of outside board directors on the board), FD (female director, defined as the number of women directors on the board), AC (audit committee size, defined as the number of member in audit committee), and BM (board meetings, defined as number of board meetings held in a year), and TA (bank size, defined in terms of total assets, in percentage).

Variables	Minimum	Maximum	Mean	Std. Deviation
ROA	-1.43	3.57	1.64	.71
RL	.10	24.29	2.22	2.69
BS	5.00	11.00	7.56	1.42
BM	4.00	39.00	17.13	8.01
FD	0.00	2.00	.33	.61
BI	0.00	4.00	1.82	1.03
AC	3.00	5.00	3.38	.61
TA	22.71	25.73	24.61	.57

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 presents the bivariate Pearson's correlation coefficients between different variables used in the study. The correlation coefficients are based on the data from of 25 Nepalese commercial banks for the study period of 20012/13 to 2016/17. ROA (return on assets, defined as ratio of net income to total assets, in percentage) and RL (risk level, nonperforming loans to total loans, in percentage) are dependent variables. The independent variables are BS (board size, defined as is the number of directors on the board), BI (board independence, defined as number of outside board directors on the board), FD (female director, defined as the number of women directors on the board), AC (audit committee size, defined as the number of member in audit committee), and BM (board meetings, defined as number of board meetings held in a year), and TA (bank size, defined in terms of total assets, in percentage).

Variables	ROA	RL	BS	BM	FD	BI	AC	TA
ROA	1							
RL	-.230**	1						
BS	-0.056	0.028	1					
BM	0.004	-0.158	0.146	1				
FD	0.112	.256**	0.113	0.003	1			
BI	0.169	0.134	.410**	0.15	0.098	1		
AC	.215*	0.111	-0.012	-0.015	.211*	0.164	1	
TA	.408**	-.184*	-0.058	0.12	.213*	0.062	.228*	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at 1percent and 5 percent levels, respectively.

Table 3 shows that board size is negatively correlated to return on assets. This indicates that higher the board size, lower would return on assets. Similarly, number board meeting is positively correlated to return on assets. This indicates that higher the number of board meeting, higher would be return on assets. Likewise, number of female director is positively correlated with return on assets. This indicates that higher the number of female director, higher would be the return on assets. However, board independence is positively correlated with return on assets. This indicates that higher board independence, higher would be the return on assets. Likewise, member of audit committee is positively correlated with return on assets. This indicates that higher the member in audit committee, higher would be the return on assets. Similarly, bank size is positively correlated with return on assets. This indicates that higher the total assets, higher would be the return on assets i.e; bank performance.

In addition, that board size is positively correlated to bank risk level. This indicates that higher the board size, higher would be bank risk level. Similarly, number board meeting is negatively correlated to bank risk level. This indicates that higher the number of board meeting, lower would be bank risk level. Likewise, number of female director is positively correlated with bank risk level. This indicates that higher the number of female director, higher would be the bank risk level. However, board independence is positively correlated with bank risk level. This indicates that higher board independence, higher would be the bank risk level. Likewise, member in audit committee is positively correlated with bank risk level. This indicates that higher the member of audit committee, higher would be the bank risk level. Similarly, bank size is negatively correlated with bank risk level. This indicates that higher the total assets, lower would be the bank risk level.

Regression analysis

Having indicated the Pearson's correlation coefficients, the regression analysis has been performed and the results are presented in Table 4. More specifically, it presents regression results of board size, board independence, female directors, audit committee size, board meeting, and bank size on return on assets.

Table 4: Estimated regression results of board size, board independence, female director, audit committee size, board meetings, and bank size on return on assets

These results are based on panel data of 25 banks with 125 observations for the period of 2012/13 to 2016/17 by using linear regression model. The model is ROA =β0 + β1BS + β2BM + β3FD + β4BI + β5AC + β6TA+ eit, where dependent variable is ROA (return on assets defined as ratio of net income to total assets, in percentage) and independent variables are BS (board size, defined as is the number of directors on the board), BI (board independence, defined as number of outside board directors on the board), FD (female director, defined as the number of women directors on the board), AC (audit committee size, defined as the number of member in audit committee), and BM (board meetings, defined as number of board meetings held in a year), and TA (bank size, defined in terms of total assets, in percentage)

Models	Intercept	Regression coefficients of						Adj R_ar2	SEE	F-value
		BS	BM	FD	BI	AC	TA			
1	1.86 (5.37)	0.28 (0.63)						0.003	0.71	0.39
2	1.64 (10.88)		0 (0.05)					0	0.71	0.002
3	1.6 (22.3)			0.13 (1.25)				0.005	0.7	1.56
4	1.43 (11.23)				0.12 (2.00)**			0.021	0.7	3.64
5	0.79 (2.25)					0.25 (2.43)**		0.38	0.69	5.93
6	-10.74 (-4.29)						0.5 (4.95)*	0.16	0.65	24.5
7	1.84 (5.15)	-0.03 (0.63)	0.001 (0.14)					0.003	0.71	0.2
8	1.85 (5.18)	-0.03 (0.78)	0.001 (0.16)	0.14 (1.32)				0.018	0.71	0.72
9	1.94 (5.48)	-0.08 (1.63)	-0.001 (0.07)	0.12 (1.21)	0.15 (2.30)*			0.03	0.69	1.89
10	1.26 (2.46)	-0.07 (1.45)	0 (0.02)	0.09 (0.82)	0.13 (2.00)*	0.19 (1.81)		0.046	0.69	2.2
11	-9.86 (-3.7)	-0.005 (1.09)	-0.005 (0.61)	0.007 (0.07)	0.12 (1.99)**	0.11 (1.11)	0.46 (4.31)*	0.17	0.64	5.2

Note: The asterisk signs (**) and (*) indicate that the results are significant at 1 percent and 5 percent levels, respectively.

The result shows that the beta coefficient is positive for board size. It indicates that board size has positive impact on return on assets. This finding is consistent with the findings of Kyereboah-Coleman and Biekpe (2006). Similarly, the beta coefficient is positive for number of female directors. It indicates that number of female directors has positive impact on bank performance. This finding is similar to the findings of Adams & Ferreira (2009). The beta coefficient for board independence is positive with bank independence. It indicates that board independence has positive impact on bank performance. This finding is similar to the findings of Beasley (1996) and Rosenstein and Wyatt (1997).

Similarly, the beta coefficient for audit committee size is positive. It reveals that the audit committee size has positive impact on bank performance. This finding is not similar to the finding of any authors. Likewise, the beta coefficient for board meeting is positive. It indicates that board meeting has positive impact on bank performance. This finding is similar to the findings of (Pradhan, 2014).However, the beta coefficient for total assets is positive. It indicates that total assets has positive impact on bank performance. This finding is similar to the findings of Bino and Tomar (2008).

Table 5 presents regression results of board size, board independence, female directors, audit committee size, board meeting, and bank size on risk level.

Table 5: Estimated regression results of Board size, Board independence, Female director, Audit committee size, board meeting, TA(total assets) or(bank size) on bank risk level

These results are based on panel data of 25 banks with 125 observations for the period of 2012/13 to 2016/17 by using linear regression model. The model is RL =β₀+β₁BS+β₂BM+β₃FD+β₄BI+β₅AC+ β₆TA+eit, where dependent variable is RL (risk level, nonperforming loans to total loans, in percentage) and independent variables are BS (board size, defined as is the number of directors on the board), BI (board independence, defined as number of outside board directors on the board), FD (female director, defined as the number of women directors on the board), AC (audit committee size, defined as the number of member in audit committee), and BM (board meetings, defined as number of board meetings held in a year), and TA (bank size, defined in terms of total assets, in percentage).

Models	Intercept	Regression coefficients of						Adj. R bar2	SEE	F-value
		BS	BM	FD	BI	AC	TA			
1	1.81 (1.37)	0.05 (0.31)						0.001	2.7	0.09
2	3.13 (5.54)		-0.053 (1.8)					0.02	2.66	3.17
3	1.85 (6.95)			1.13 (2.93)**				0.06	2.61	8.63
4	1.58 (3.24)				0.35 (1.5)			0.01	2.67	2.24
5	0.55 (0.4)					0.49 (1.24)		0.004	2.68	1.54
6	23.45 (2.29)						-0.86 (2.07)**	0.026	2.65	4.3
7	2.42 (1.8)	0.1 (0.6)	-0.05 (1.84)					0.012	2.67	1.74
8	2.45 (1.87)	0.04 (0.26)	-0.05 (1.85)	1.12 (2.91)**				0.069	2.59	4.06
9	2.67 (2.05)	-0.06 (0.37)	-0.06 (2.02)**	1.09 (2.83)**	0.39 (1.6)			0.08	2.57	3.71
10	2.14 (1.11)	-0.06 (0.33)	-0.06 (1.99)**	1.06 (2.68)**	0.38 (1.48)	0.15 (0.38)		0.07	2.59	2.97
11	31.51 (3.09)	-0.11 (0.65)	-0.04 (1.64)	1.27 (3.26)*	0.4 (1.64)	0.36 (0.92)	-1.21 (2.93)**	0.13	2.51	4.07

Note: The asterisk signs (**) and (*) indicate that the results are significant at 1percent and 5 percent levels, respectively.

The result of regression table indicates that the beat coefficient is positive for board size. It indicates that board size has positive impact on bank risk. This finding is not similar to the findings of any other authors. Similarly, the beta coefficient is positive for number of female directors. It indicates that number of female directors has positive impact on bank risk. This finding is similar to the findings of Adams and Funk (2012). The beta coefficient for board independence is positive with bank risk. It indicates that board independence has positive impact on bank risk. This finding is not similar to the findings of any other authors.

Similarly, the beta coefficient for audit committee size is positive. It reveals that the audit committee size has positive impact on bank risk. Likewise, the beta coefficient for board meeting is negative. It indicates that board meeting has negative impact on bank risk. This finding is similar to the findings of Conger et al (1998). However, the beta coefficient for total assets is negative. It indicates that total assets has negative impact on bank risk. This finding is similar to the findings of Altunbas et al. (2007)

IV. Summary and conclusion

This study attempts to examine the effect of corporate governance on risk taking and profitability of Nepalese commercial banks. The study is based on secondary data of 25 commercial banks with 120 observations for the period 2012/13 to 2016/17.

The result shwos that board size is negatively correlated to return on assets. This indicates that higher the board size, lower would return on assets. Similarly, number board meeting is positively correlated to return on assets. This indicates that higher the number of board meeting, higher would be return on assets. Likewise, number of female director is positively correlated with return on assets. This indicates that higher the number of female director, higher would be the return on assets. However, board independence is positively correlated with return on assets. This indicates that higher board independence, higher would be the return on assets. Likewise, member of audit committee is positively correlated with return on assets. This indicates that higher the member in audit committee, higher would be the return on assets. Similarly, bank size is positively correlated with return on assets. This indicates that higher the total assets, higher would be the bank performance. The regression result also shows that board independent, audit committee size and bank size have positive and significant impact on the profitability. Similarly, female director has positive and significant impact on bank risk. Likewise, board meeting and bank size have negative and significant impact on the bank risk. The study concludes that total assets followed by audit committee size and board independent are the most influencing factors explaining the profitability of Nepalese commercial banks.

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