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Banks in Nepal: Business Management and Implementation

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1. Introduction

1.1 RESEARCH BACKGROUND

In Nepalese active enterprises, the separation of ownership and control is crucial to business management. Shareholders (leaders) delegate judgment power to administration (agents) in companies, with the assumption that the agents will carry it out. The "organizational issue" emerges anytime the agents do not decide in favor of the principal, or the agents are working in their own best interests at the cost of shareholder interests [1], to the greatest profit of directors.

It is mainly meant in this regard to develop solid corporate governance in order to protect shareholders from any losses resulting from a shareholder-management dispute [2]. As a crucial approach of eliminating this conflict of interest, shareholders select and appoint members to the Executive Board to supervise management operations and make decisive decisions regarding the firm in the shareholders' interest.

Corporate governance improves operational efficiency and effectiveness while also increasing investor confidence [3]. It also allows enterprises to get external finance, minimize capital expenditures, and enhance operational performance, as well as demonstrating investors' readiness to pay a significant premium for Nepalese-owned businesses [4]. Based on this data, effective corporate governance tends to increase firm value and enhance business performance swiftly.

Despite the fact that researchers from advanced economies have created a truly significant corporate management literature, little research has been conducted on this topic in developing countries, and it was also noted that, despite the past connection between corporate governance and corporate performance, exact research on the effect of corporate governance for a company per company has yet to reach agreement [5].

Previous corporate governance research in Nepal has been woefully inadequate, and no contemporary study has sought to dissect the influence of corporate governance on banking performance.

As a result, the influence of internal and external governance measures on bank performance is examined in this research. The board's data analysis is based on financial and non-financial data acquired from each commercial bank that operated between 2005 and 2011. While the board of directors and the presence of the board of directors had a statistically significant negative effect on bank performance, bank volume and the percent of capital had a statistically significant positive impact on bank performance, according to the data.

1.2 RESEARCH OBJECTIVES

The study focuses on banks' adoption of key aspects of corporate governance. The study will look at how banks adhere to corporate governance principles as laid forth in the Corporate Governance Guidelines. A scorecard of concepts derived from the guidelines was utilized for this examination. The scorecard assesses numerous aspects of the suggestions, which are organized as follows:

- Corporate reporting and publishing
- Leadership structure
- Board structure
- Board size and makeup
- Board of Directors

1.3 STATEMENT OF THE PROBLEM

"Excellent corporate governance, according to the Organization for Economic Cooperation and Development (2004), should offer the board and top management better incentives to achieve

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aims that are aligned with the company's and shareholders' goals. It should also allow for effective monitoring. When an efficient corporate governance process is formed, whether in a company setting or in a wider commercial environment, the degree of trust required for good economic functioning rises. It is often expected that a company's operational and financial success would reflect its management practices."

"The first inquiry into this issue discovered a little and insufficient amount of previous work in this sector. The study on bank performance and corporate governance is not clear in the academic area of research that provides Nepal a complete understanding of changing bank corporate governance environments. International/global and national governments are putting a lot of emphasis on good corporate governance and good bank performance. The study topic of Corporate Governance and Bank Performance in Nepal has been validated by little research on corporate governance. This research will have a significant impact on the corporate governance of Nepalese banks."

2. REVIEW OF LITERATURE

In their study of bank performance in Costa Rica, Epure and Lafuente (2014) [35] discovered that the turnover of senior executives results in a drop in bank inefficiencies. This is shown when a new CEO is appointed from outside the company (not a former employee of the bank). The decrease in incapacity was linked to the fact that an external CEO has an incentive to implement new governance/management methods in order to enhance a bank's performance, which in turn increases his/her pay.

According to Rowe, Shi, and Wang (2011)[36], introducing best practices in corporate governance throughout the world has a favorable impact on bank performance. Researchers discovered that Chinese banks that adopted Western governance methods performed better in terms of ROA and ROE. ROE and RAO, in particular, have seen an increase in board member ownership. However, certain members of the board's fixation on ownership has impeded the bank's operations. The number of board insiders was reduced, which had a positive impact on bank performance. The conclusions, however, are based on a combined OLS analysis, which was unable to eliminate the serial association in corporate governance and banking performance studies.

3. RESEARCH METHODOLOGY

Corporate governance is regarded as one of the most important factors influencing company success. In this regard, the current research is especially significant in the subject of banking corporate governance, given the banking sector's critical position in a country's economic system, particularly in Nepal. As a result, the corporate governance structures of banks are crucial for banks and their business clients.

As a result, the continual development of literature on firm management and performance has sparked this study, which may contribute to the enhancement of people's wealth in Nepal, a poor-paying nation. In an economy, the banking corporation is critical to effective capital classification. It also promotes financial stability and links money across the economy.

The potential to strengthen corporate governance in Nepal is a major motivator for this study. As a developing nation, Nepal has a large number of open doors that have yet to be used. Greater governance would boost investors' confidence and lead to a deeper and more effective capital market. Cash failure is a key impediment to development. There are numerous untapped opportunities in the country, and a well-developed capital market attracts many local and international investors.

This will aid in addressing the present unemployment crisis, reducing the balance of payments and the brain channel, as well as promoting financial stability, risk management, and eventually strengthening the financial system. There has been no study regarding Nepalese corporate governance or business. Corporate governance refers to the oversight and management of an organization's owners and managers' activities in order to promote transparency, accountability, minority protection, and the elimination of conflicting interests between managers and property owners, also known as agency costs.

The question of whether stronger corporate governance may lead to higher company performance is an essential one to investigate. Before empirical research, definitive proof is offered. Furthermore, institutional variations across nations impact the link between corporate governance and firm success. Furthermore, there is a lack of an optimal appraisal of techniques. Because of these issues, this research examines the impact of corporate governance on the performance of financial institutions in Nepal. Nepal's landscape, history, and people make for a fascinating setting for banking and business in general.

4. Result and Findings

According to the findings, there is a positive relationship between profit margin and return on assets for Nepalese companies and aging, book-to-book ratio, and corporate governance overall index, implying that a higher age, a higher market-to-book value ratio, and a higher corporate governance level for Nepalese corporations to improve financial performance. The size of the assets and the indebtedness ratio are both negative in this study's findings, but the concentration of ownership has no impact on financial success.

Finally, the result of According to the findings, corporate governance, market-to-book value, age, asset size, and debt ratio all have a role in a company's financial performance in Nepal. The removal of impediments to financial liberalization is a multi-year process. It is also defined by the reintroduction of restraints at times, albeit only for a short period. Institutional reforms are not only necessary for the success of financial sector changes, but they are also a prerequisite for liberalization.

5. CONCLUSION

According to the findings, commercial bank and development bank mergers are comparable. There are no differences between before and after the merger of commercial development banks, according to independent t-tests. The global financial crisis brought Basel III to light. The Basel Committee on Banking Supervision published 'Basel III' (BCBS)

Basel III's objectives were to improve each bank's first-order shock absorption capacities. Aside from the measures, efforts are being taken to ensure that the financial sector as a whole is not weakened, and that its spillovers into the real economy are minimized. The analysis of the essential features of Basel III and its application in Nepal are significant observations/findings.

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• With the inherent risk in the Nepalese banking system taken into consideration, the Common Equity Tier 1 (CET1) ratio, Tier 1 equity ratio, and total capital ratio for Nepalese banks were determined to be higher than the minimum capital recommended by Basel III.

The Basel III standards are unlikely to have a substantial impact on Nepalese banks' risk exposure. Nepal's banks have yet to be exposed to complex financial products like derivatives and securitized assets. However, as the market develops, these safeguards will become more important.

• Based on outside data, our business banks' leverage position surpasses the specified minimal level (i.e.3 percent).

• Development and execution of the system for monitoring the liquidity of the Basel III liquidity standards.

• The Nepalese financial industry has yet to attain the growth and advancement of the global standard.

• The creation and execution of Basel III's liquidity criteria need the deployment of a liquidity monitoring mechanism.

The system has various flaws and limitations, including a lack of credit rating techniques, internal risk assessment by banks, poor management, strong macro-prudential policies, and regulatory compliance.

Additional capital and liquidity will be required after the implementation of Basel III. In Nepal's situation, implementing Basel III's additional capital and liquidity requirements will be quite straightforward. Furthermore, the transitional provisions are adequate as stated. However, Nepal's implementation of Basel III capital norms must be created and regulated in due time.

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