Iosr Journal Of Economics And Finance (Iosr-Jef)
E-Issn: 2321-5933, P-Issn: 2321-5925.Volume 15, Issue 5 Ser. 7 (Sept. – Oct. 2024), Pp 04-10
www.Iosrjournals.Org

Practices of Corporate Governance and its Impact on Perceived Performance in Nepalese Life Insurance Companies

Uday Kishor Tiwari
Assistant Professor, Central Department of Management. Tribhuvan University, Nepal

Ram Kumar Tiwari
Branch Manager, Himalayan Life Insurance Limited, Nepal

Binod Shah
Associate Professor, Faculty Of Management
Ramswarup Ramsagar Multiple Campus, Janakpurdham, Tribhuvan University, Nepal
Corresponding Author: Binod Shah

Abstract
The goal of this research is to explore the 'Practice of Corporate Governance and Its Impact on Perceived Performance in Nepalese Life Insurance Companies'. The study used a descriptive and causal comparative research design. The main variables of corporate governance identified include commitment to corporate governance, transparency and disclosure, alongside the structure and functioning of the board. In contrast, the perceived performance of the companies, measured through enhanced productivity and profitability, serves as the control variable. The analysis covers all 14 life insurance companies currently functioning in Nepal. To achieve the study's objectives, a judgmental sampling approach from the non-probability sampling method was adopted, while purposive sampling was applied to identify respondents for the questionnaires. Out of the 14 companies, five were selected as samples. The participants included specific employees from these companies, with a total of 106 respondents completing the questionnaire. The data were analyzed using a multiple linear regression model. The findings revealed that Nepalese life insurance companies exhibit strong adherence to corporate governance and their performance is also excellent; however, the connection between commitment to corporate governance, structure and functioning of the board, transparency and disclosure, and perceived performance appears to be quite weak. The research concluded that effective corporate governance have only a slight positive association with performance.

Keywords: *Corporate governance (CG), Life Insurance Companies, Commitment to Corporate Governance (CCG), Transparency and Disclosure (TD), and Structure and Functioning of Board (SFB), Perceived Performance, Productivity, Profitability.*

Date of Submission: 09-10-2024 Date of Acceptance: 19-10-2024

I. Introduction

Governance pertains to the process or act of overseeing an organization, especially within the business sector. Corporate governance is the blend of systems, principles, and procedures through which a company is managed and regulated. It includes the dynamics among the company's stakeholders, such as its board of directors management, shareholders, other involved parties (Tiwari, 2022). Bob Tricker introduced the term corporate governance in his 1984 book, "Corporate Governance." He described it as the implementation of optimal management practices, legal compliance, and ethical standards that facilitate effective management, equitable wealth distribution, and fulfilling social responsibilities for the sustainable development of all stakeholders.

Effective governance is vital for enhancing organizational performance, significantly affecting business outcomes. Strong corporate governance is necessary for ongoing and sustainable organizational progress. The adverse impact of inadequate corporate governance is increasingly acknowledged as a leading factor in financial crises (Fama, 1980). The beneficial influence of corporate governance on various stakeholders ultimately contributes to the overall strengthening of the economy. Consequently, sound corporate governance serves as a means for socio-economic advancement (Katrodia, 2010).

Chen (2021) described corporate governance as a framework of rules that governs how a firm is directed and managed. Balancing the interests of a company's diverse stakeholders such as shareholders, top executives, customers, suppliers, financiers, the government, and the community is central to corporate governance. Friedman (1970) defined it as running a business according to the interests of the owners or shareholders, typically aiming to maximize profits while adhering to societal laws and customs.

Life insurance is a financial service intended to offer monetary protection to individuals and their families in the event of the policyholder's death or other specified instances. A life insurance company is a financial institution that mitigates life and financial risks for its clients by charging specific premiums. It provides financial safeguards against death, disability, or other defined situations. Policyholders make regular premium payments in return for a guaranteed sum that beneficiaries obtain upon the policyholder's death or at the conclusion of the policy term. In Nepal, 14 life insurance companies operate under the regulation of the Nepal Insurance Authority.

The Banking and Financial Institutions Act (BAFIA) of 2016 oversees banks and financial entities in Nepal with the objective of enhancing the banking system, cultivating public trust, safeguarding depositors' rights, and ensuring quality service delivery. The act incorporates corporate governance principles from the Organization for Economic Cooperation and Development (OECD), which include protecting shareholder rights, ensuring equitable treatment, and providing transparency in disclosures. Board members must be selected carefully and carry out their responsibilities diligently. Furthermore, the act establishes a robust corporate governance framework through legal oversight, clear delineation of roles, and transparency concerning finances, ownership, performance, and governance.

II. Review Of Literature

Palaniappan (2017) discovered a negative relationship between the size of a board various business performance indicators, including Tobin's Q, ROA, and ROE. The research proposed that improving board independence and increasing the frequency of meetings could enhance the connection between return on equity and return on assets as mechanisms of corporate governance. Using a multivariate regression model, the study analyzed data from 275 Indian manufacturing companies spanning 2011 to 2015 to determine how board characteristics impacted company performance, employing both market and accounting-based measures.

Haidary & Abbey (2018) demonstrated that management efficiency primarily drives the profitability of financial institutions, while external economic factors were found to be insignificant at the 5% confidence threshold. The research sought to assess the financial performance of individual firms at both the company and industry levels, ranking them based on profitability and examining the influence of capital adequacy, asset quality, management efficiency, and liquidity. This analysis involved descriptive examinations of financial ratios and multiple linear regressions applied to 15 Afghan banks from 2012 to 2016, utilizing secondary data from this timeframe. The study employed a multiple linear regression model and t-statistics to evaluate the significance of each independent variable ratio in relation to industry performance.

Marco & Fernandez (2021) characterized corporate governance as the ensemble of processes, customs, policies, laws, and institutions influencing how a company is directed, managed, controlled, and governed. It also incorporates maintaining stakeholder relationships at various levels. Inadequate corporate governance can undermine corporate confidence and effectiveness, potentially leading to increased risks.

Tiwari (2022) explored how corporate governance affects the performance of manufacturing industries in Nepal, concluding that effective governance practices are essential for organizational success. Respondents recognized key concepts such as transparency and disclosure (TD), board structure and functioning (SFB), corporate governance commitment (CCG), and good governance (CG). The findings emphasized that sound corporate governance significantly impacts organizational achievement, as well-managed industries in terms of planning, processes, resources, and control contribute positively to their success.

Acharya (2023) indicated that robust corporate governance fosters ethical business practices, which in turn enhances financial sustainability. Organizations engaged in good corporate governance often face critical issues. The findings suggest that Nepalese insurance companies generally uphold above-average standards for corporate governance. While transparency shows a strong positive correlation, accountability and reliability exhibit a weaker positive correlation with governance practices. Transparency is identified as a crucial aspect in maintaining corporate governance within Nepalese insurance firms.

III. Research Gap

Numerous investigations into Corporate Governance (CG) have been conducted in the banking sector at both national and international scales. Nonetheless, research specifically targeting CG within Nepal, especially regarding Nepalese life-insurance companies, remains limited. Therefore, this paper, references previous journals, theses, and reports, seeks to be an important resource and source of understanding for life-insurance providers globally.

IV. Research Methodology

The study utilizes a descriptive and causal-comparative research framework. The focus group comprises clients from all life-insurance companies operating in various cities across Nepal. A convenience sampling method was employed to choose customers from five out of the 14 life-insurance firms operating in the Kathmandu Valley for data analysis. This research examines the practice of corporate governance and its impact on perceived performance in Nepalese life insurance companies, looking into how different independent variables influence perceived performance of companies. The companies sampled include Himalayan Life Insurance Limited, Sanima Reliance Life Insurance Limited, Reliable Nepal Life Insurance Company Limited, National Life Insurance Company Limited, and Suryajyoti Life Insurance Company Limited. Employees from these companies participated as respondents in the study, in total of 106 employees completed questionnaires. The data was analyzed using a multiple linear regression model.

Model Specification

The model suggests that perceived performance of life insurance companies is primarily influenced by these three factors: commitment to corporate governance, structure and functioning of the board, transparency and disclosure.

$\hat{Y} = \alpha + \beta1\ X1 + \beta2\ X2 + \beta3\ X3 + ei$

Where

$\hat{Y}$ = Perceived Performance of Companies

X1 = Commitment to Corporate Governance

X2 = Structure and Functioning of the board

X3 = Transparency and Disclosure

α = Constant

$\beta1$, $\beta2$, and $\beta3$ are regression coefficients of factor 1, factor 2, and factor 3 respectively.ei = Error Term

Conceptual Framework

The framework outlines the relationship between perceived performances of life insurance companies with CCG, SFB and TD. This model form the basis for the research description and derived from review of literature.

Independent variables **Dependent variables** **Result**

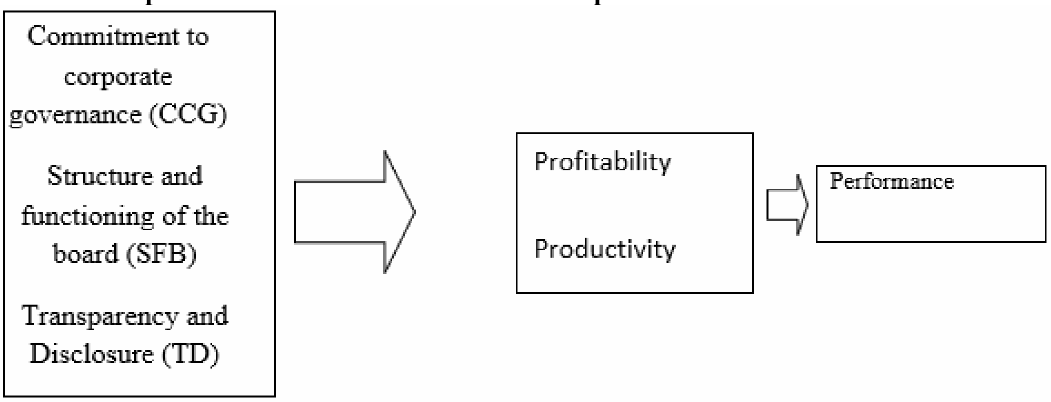

Figure 1: Conceptual Model

Source: Tiwari, 2022

i) Commitment to Corporate Governance (CCG):

Commitment refers to the dedication towards a specific organization, cause, or belief, along with the readiness to engage. The Board and management adhere to the principles of robust corporate governance aimed at prudent management and enhancing shareholder value. These principles focus on transparency, accountability, and independence. There is a positive relationship between board composition, commitment to corporate governance, and the firm's performance, which serves as an independent variable for this study (Tiwari, 2022).

H1: A commitment to corporate governance is positively related to the perceived performance of life-insurance companies.

ii) Structure and Functioning of the Board (SFB):

The main responsibility of the board is to set and plan both short-term and long-term objectives for the company, while also establishing monitoring processes. The organization's structure is vital for all its functions, and board members must evaluate and discuss the company's aims. Both internal and external mechanisms of the organization are essential for achieving organizational objectives. The structure of the board has a direct impact on the firm’s performance, making it an independent variable in this study (John & Senbet 1998).

H2: The structure and functioning of the board positively relate to the perceived performance of life-insurance companies.

iii) Transparency and Disclosure (TD):

Transparency and disclosure in corporate governance have become increasingly associated with effective governance, underscoring its substantial value and direct positive effects on organizational performance. However, transparency can sometimes conceal more than it reveals, keeping authority and insight regarding corporate conduct predominantly within the companies themselves (Janning, et al. 2020).

H3: Transparency and disclosure show a significant positive relationship with the perceived performance of life-insurance companies.

iv) Productivity:

Productivity is commonly defined as the ratio of output to the volume of inputs. It essentially measures how effectively production resources, such as labor and capital, are utilized in an economy to generate a specific level of output. Factors such as financial performance, ownership structure, and board characteristics are critical in influencing productivity (Rashid et al. 2020).

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

v) Profitability:

Profitability is an efficiency measure that ultimately determines a company’s success or failure. It can also be understood as the firm's ability to generate returns on its investments using its resources, in relation to alternative investments. Companies with low ownership concentration tend to exhibit low profitability (Joh 2003).

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

V. Data Analysis And Presentation

Position of variables in Nepalese life insurance companies

Table 1, Descriptive analysis of variables

Questions	N	Mean		Std. DeviationStatistics
		Statistics	Std. Error	
A. Commitment to corporate governance				
1. The company has a written corporate governance policy.	106	4.4286	.06610	.67734
2. The company has designated a responsible person to follow CG policy.	106	4.7264	.04351	.44792
3. Issues related to corporate governance are discussed in the annual board meeting of the company.	106	4.7925	.03958	.40748
Composite value	106	4.6492		
B. Structure and Functioning of the Board				
1. The board has a sufficient number of independent directors.	106	4.1887	.03818	.39311
2. The board has endorsed written guidelines for their activities.	106	4.3302	.04589	.47252
3. The board meetings are held according to a regular schedule.	106	4.6132	.04753	.48933
Composite value	106	4.3774		
C. Transparency and Disclosure				
1. The company followed accounting practices which	106	4.6509	.04652	.47894

are accepted by national and international organizations.				
2. The audit is performed by independent auditor.	106	4.4434	.06299	.64852
3. Annual report of the company published no later than three months.	106	4.1415	.05756	.59263
Composite value	106	4.4119		
D. Productivity				
1. Satisfaction level of industry with its performance.	106	4.5377	.06726	.69247
2. Domestic market share of industry	106	4.6321	.04706	.48453
3. We are satisfied with our product and market demand.	106	4.4057	.06256	.64407
Composite values	106	4.5252		
E. Profitability				
1. Status of profitability index of our company is above the market average.	106	4.7642	.04143	.42655
2. Market share price of our company is above the average of similar company.	106	4.7736	.04084	.42050
3. The company distribute more than two months gross profit as bonus to employees.	106	4.4528	.04858	.50013
Composite value	106	4.6653		

Source: Field Survey, 2024

Table 1 indicates that the composite mean values for each factor exceed 4, surpassing the median value on a scale of 3. This suggests that life insurance companies in Nepal strongly adhere to corporate governance practices, and their performance levels are also robust.

Association between dependent and independent variable

To assess the link between corporate governance and the perceived performance of these companies, Spearman's correlation is employed. The analysis is carried out using SPSS version 29, leading to the following findings.

Table 2, Correlation Analysis

	CCG	SFB	TD	Performance of companies
CCG	1			
SFB	-0.189	1		
TD	-0.384	0.638	1	
Perceived performance of companies	-0.030	0.140	0.148	1

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

Source: Field Survey, 2024

Table 2 illustrates the correlation between the perceived performance of companies and the variables CCG, SFB, and TD, showing values of -0.030, 0.140, and 0.148, respectively. The correlation matrix reveals that these factors display a statistically weak relationship at the 0.05 significance level, with p-values under 0.01. Moreover, the correlation coefficients for each variable related to performance are below 0.5, accompanied by a p-value of 0.00, reflecting a very minimal association among variables.

Model Summary of Regression Analysis

The analysis of presented model Summary gives various results of correlation coefficients after considering a set of data.

Perceived performance of companies with CCG, SFB and TD

Table 3, Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.161[a]	.026	-.003	.17544

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

Source: Field Survey, 2024

The model summary includes the R-square, also known as the coefficient of determination, which helps in understanding variability. As shown in Table 3, the R-square value is 0.026, indicating that 2.6% of the variation in how companies related to CCG, SFB, and TD are perceived can be explained. However, this leaves 97.6% of the variation unexplained in this analysis. This suggests that the research did not account for all independent variables influencing the perceived performance of these companies.

Table 4, Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.084	3	.028	.909	.439[b]
Residual	3.139	102	.031		
Total	3.223	105			

a. Dependent Variable: Perceived performance of companies
b. Predictors: (Constant), CCG, SFB and TD

Source: Research data, 2024

Referring to Table 4, the p-value is 0.439, which exceeds the alpha level of 0.05. Therefore, the model fails to establish a connection between the perceived performance of companies and the variables CCG, SFB, and TD.

Table 5, Impact of CCG, SFB and TD on Perceived performance of companies.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.981	.500		7.959	<.001
CCG	.015	.061	.027	.253	.801
SFB	.054	.093	.073	.577	.565
TD	.069	.084	.112	.826	.411

a. Dependent Variable: Perceived Performance

Source: Research data, 2024

Regression line

$\hat{Y} = \alpha + \beta1\ X1 + \beta2\ X2 + \beta3\ X3 + ei$

Perceived Performance of Companies = 3.981+ 0.015 CCG + 0.054 SFB + 0.069 TD

Even though the significance level is higher than 0.05, regression analysis reveals that beta coefficients demonstrate the significance of independent variables in explaining the variance in the dependent variable. Table 5 indicates a positive correlation between the perceived performance of companies and the independent variables, suggesting that improvements in CCG, SFB, and TD lead to an enhanced perceived performance of companies, assuming that all other variables remain constant.

VI. Conclusion

This research was conducted to explore the practice of corporate governance and its impact on perceived performance in Nepalese life insurance companies. The findings revealed that most participants grasp the concepts of TD, SFB, CCG, and CG. The responses indicate that the companies are making efforts to implement robust corporate governance practices. The study highlights that the roles of TD, SFB, and CCG within life insurance companies are performing exceptionally well, favoring those companies. Employees' feedback suggests that these firms are effectively managed regarding planning, processes, resources, and control, contributing to their organizational success. Life insurance companies have achieved notable success in their operations. However, the relationship between CCG, SFB, TD, and the perceived performance of insurance companies was found to be quite weak. This study concludes that while these insurance firms adhere to corporate governance principles strongly, there is not a significant impact on their performance; nonetheless, a slight positive correlation exists between the dependent and independent variables.

References

[1] Acharya, T. P. (2023). Corporate Governance In Nepalese Insurance Company. Damak Campus Journal, 12(1), 6-16.
[2] Bob, T. (1984). Corporate Governance 4e. Walton Street: Oxford University Press.
[3] Chen, J., & Bikki, P. (2000). Association Between Independent Non-Executive Directors, Family Control And Financial Disclosures In Hong Kong Policy. Journal Of Accounting And Public Policy, 19, 285-310.
[4] Fama, E. F. (1980). Agency Problem And The Theory Of The Firm. Journal Of Political Economics, 88(2), 19-28.
[5] Friedman, M. (1973). The Social Responsibility Of Business Is To Increase Its Profits. New York Times, 29(3), 14.
[6] Haidary, Q., Abbey, B. (2018). Financial Performance Of A Commercial Banks In Afghanistan. International Journal Of Economics And Financial Issues, 8(1), 242-249.
[7] Jannin, F., Khlif, W. & Ingley, C. (2020). Transparency Is (Full) Disclosure In Corporate Governance. The Illusion Of Transparency In Corporate Governance, 57-82.
[8] Joh, S.W. (2003). Corporate Governance And Firm Profitability: Evidence From Korea Before The Economic Crisis. Journal Of Finance And Economics, 68(2), 287-322.

[9] John, K. & Senbet, L. W. (1998). Corporate Governance And Board Effectiveness. Journal Of Banking And Finance, 22(4), 371-403.
[10] Katrodia, A. (2010). Corporate Governance Practices In The Banking Sector. National Monthly Referred Journal Of Research In Commerce & Management, 1(4), 37-44.
[11] Palaniappan, G. (2017). Determinants Of Corporate Financial Performance Relating To Board Characteristics Of Corporate Governance In Indian Manufacturing Industry: An Empirical Study, European Journal Of Management And Business Economics, 26(1), 67-85.
[12] Rashid, M.H.U., Zobair, S.A.M., & Chowdhury, M.A.I. (2020). Corporate Governance And Banks' Productivity: Evidence From The Banking Industry In Bangladesh. Business Research, 13, 615–637.
[13] Tiwari, R. K. (2022). The Impact Of Corporate Governance On Perceived Performance Of Manufacturing Industries In Nepal. An Unpublished Master Degree Thesis, C.D.M., T.U.