# Impact of National Election-2017/18 on Corporate Performance:

An Analysis of Insurance Companies in Nepal

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## Abstract:

*This paper analyzes the impact of the national election on corporate performance by using panel data from listed insurance companies over the period 2015 to 2021 with 126 observations. The proxy variables of corporate performance have used market price per share (MPS), dividend payout ratio (DPS), and return on assets (ROA) for market performance, investor's performance, and firm's performance respectively. This study uses the generalized least squared (GLS) method for the final impact assessment. Empirical analysis shows that the beta coefficient of D-election is significantly negative with all performance proxy variables in random effect estimates. This indicates that there is a random effect of the national election on corporate performance and provides a negative impact on corporate performance after the national election-2017-18. Similarly, analysis of fixed effects also support a similar impact except for the DPS because DPS is not significant. For the robust test, this paper has performed the Breusch-Pagan test and Hausman test which supports consistency of the analysis. Overall analysis suggests that the four levels of elections: local level, provincial level, federal level, and national assembly election do affect adversely the corporate performance of insurance industries in Nepal.*

**Keywords:** national election, corporate performance, panel data analysis, GLS, insurance companies.

## Introduction:

The election is a process of selecting leaders or governing system in any democratic practice (Doorenspleet, 2006; and Sharan and Heathershaw, 2011). With the conclusion of a particular election, many existing structures can be changed or amended including policy, organizational structure, working priority, target audience, resource mobilization (Memon et.al.,2020) and many more. Similarly, an election does not only affect the public sector but also directly or indirectly affect the private or corporate sector that is not even directly engaged in the election process (Gorrell, et.al.2020; Hackenberger, et.al.,2021; and McGrane, 2014). Nepal has formally adopted the federal structure with the promulgation of the new constitution of the Federal Democratic Republic of Nepal in 2015 and in 2017-18, the first-ever three-phase of the election was held to choose people's representatives in designated positions that is local level, provincial level, and federal level. In this entire procedure of election, three major national-level political parties and three regional-level parties took part. After completion of these elections in 2017, the body of the national assembly also firmed for the first time in Nepal. These elections are directly associated with the public structure, performance, rule of law, economic system, public innovation (Bekkers et al. (2013), revenue and taxation policy. However, the national level's election also impacts the corporate sector which is not the component of the election procedure (Memon, 2020; Christopoulos, and Ingold, 2015; and Mulgan, 2005).

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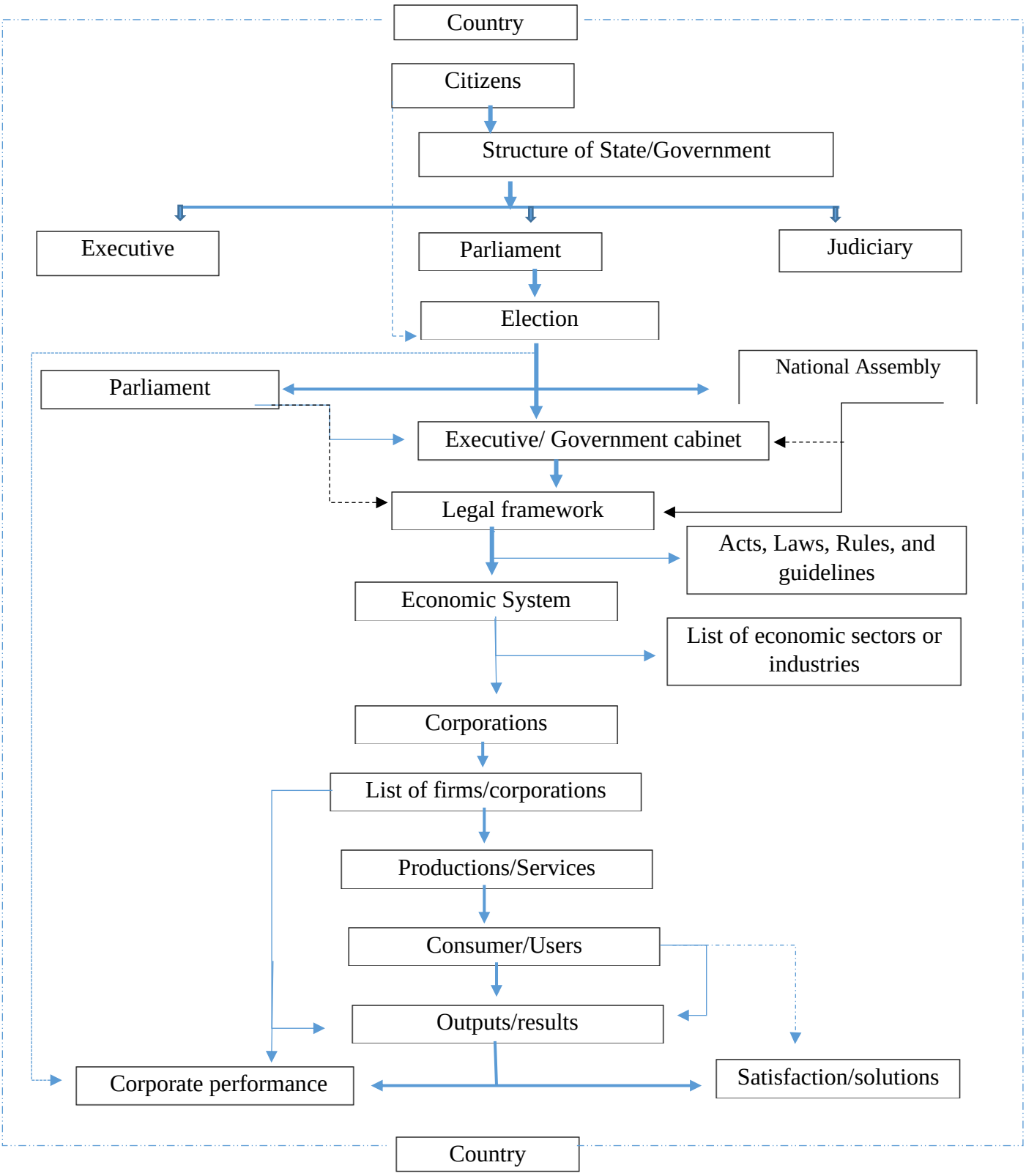



Source: Authors own development

**Figure 1 Interlink diagram of election and corporate performance**

The private sector or public corporation are affected by these election different facets (Robert and Jerome, 2002), they can be through taxation policy (Ehrhat, 2013), investment policy, resource mobilization policy, research and development, international trade, and many more. The outcome of its impact can be reflected in corporate performance, market stability, increase in underground activities, brain drain, the status of foreign direct investment, international trade balance, employment level, increase in crime rate, etc. The major directional interlink can be shown in figure 1.1. There are many other socio-political outcomes of several election system in different dimension but they affect more specially to the economic system and corporate performance. Corporate sector's growth, market stability, and legal frame work do affect more to the private sector as they have to abide national taxation policy (Owen, 1960) and other regulatory guideline.

Corporate performance is a systematic function of a business house to provide the best solution to the customer, society, and better financial and market resources to the firm itself (Tran et. al., 2014; and Oli, 2021). Similarly, Shah, et al.(2011) argued that corporate governance is a mechanism to coordinate, influence, manage, and control the organizational resources to get optimal efficiency in operation with better customer satisfaction and this provides the level of corporate ethics and performance from different approaches. The corporate performance and governance are interlinked and it makes responsible and accountable to the authorities and management toward corporation, market, customer, and regulatory stakeholders through a set of rules and disciplines (Velnmpy, 2013; Blair, 1995; and Pradhan and Adhikari, 2009).

Corporate performance is influenced by corporate governance and governance is influenced by the governing system and the governing system is determined by the election system, and the election system is the result of the election process and outcomes to some extent (Harris and Raviv, 1988).

Therefore, this paper examines the role of national election 2017-18 on corporate performance in Nepal and the major objective of this paper is also to investigate the impact of four layers of the election on corporate performance from a different perspective. This study deals with the question of how the national election does impact on corporate sector on the market, investors, and firm's performance. Consequently, the outcomes of this study will be meaningful resources to policy analysts, the private sector, firms, political parties, and academia because there is no similar study found in academic as well as policy research.

The rest of the paper is structured as follows: Following the introduction, section 2 provides related literature reviews and section 3 presents the research design. Similarly, the empirical analysis results are reported in section 4 and the final section 5 includes the conclusions and policy implications of the study.

## Literature Review:

There are several studies related to corporate governance and corporate performance but up to our access, there are no available existing research or review papers related to the national election and corporate performance particular. Therefore, this section has presented existing reviews related to insurance companies and corporate performance from the different areas by focusing on how corporate performance does affect by corporate governance, market factors, and firm-specific factors.

Berle and Means (1932) argued that modern corporations are characterized by an inefficient corporate governance structure because ownership is separated from control of the firm. Similarly, Fama and Jensen (1983) also explained that agency costs occur when the owner and manager are not one. Hence, agency theory is the starting point of most discussions of corporate governance. Drucker (1954) concluded that corporate managers pursue actions that fulfill their own personal interests at the expense of shareholders. Basically, good governance involves better monitoring, greater transparency, and public disclosure between shareholders and managers that lead to increased investor trust and a decrease in managers' discretion and expropriation of rents. Denis (2001) found that well-governed firms are supposed to be less risky and to have more efficient operations and reduced auditing and monitoring costs. According to Macey (2008), the elements alleviate the cost of capital and generate a higher expected cash flow stream which creates higher firm valuation and better performance.

However, another study (Gompers, et. al, 2003) has shown mixed results regarding the direct relationship between a firm's corporate governance practices and its performance also identified corporate governance mechanisms like board size, board independence, board committees, ownership structure, and director remuneration to affect firm performance. It has further been recognized (Hermalin, and Weisbach, 2001) the inter-relationship between corporate governance, ownership structure, capital structure, and firm performance are endogenously determined. In corroboration to previous studies (Bhagat and Bolton, 2008; Klapper and Love, 2004; and Gompers et al., 2003) found that the positive relationship between corporate governance and performance that means corporate governance mechanisms like board independence, number of board committees and director remuneration affect performance positively while promoter shareholding, the board size, and leverage have a negative effect on performance. Moreover, in GC (2016), the Least Squares Dummy Variable (LSDV) panel data models and Two-Stage Least Square (2SLS) model has been applied in the study of good corporate governance practices adopted by companies that are positively related to financial performance that deals with the market for corporate control. Another study by Koirala and Bajracharya (2004) revised some policy implication and their impact on corporate governance and corporate performance in Nepal by analyzing the Company Act 1997, Insurance Act 1992, Bank and Financial Institution Ordinance 2004, Foreign Exchange (regulation) Act 1962, and Foreign Investment and Technology Transfer Act 1992 are the regulatory measures in operation in Nepal

The study of Subedi (2018) has revealed that the objective of this study is to analyze the role of corporate policy on the financial performance of Nepalese insurance companies by using descriptive cum causal relational research design with firm ownership and board size as the key variable of corporate governance while debt to equity ratio, firm size, firm age, and firm growth are considered as control variables. For this, a convenient sampling technique has been used for the selection of the sample, and data were analyzed using a multiple linear regression model. Similarly, Maharjan (2019), and Ghimire (2020) examine the relationship between corporate governance and the performance of the insurance companies in Nepal with having the effect of corporate governance practice on the financial performance of insurance companies in Nepal. The study adopted a descriptive analytical research design. There are some papers that used various forms of data and analysis techniques to examine the role of elections such as Potrafke et al. (2020) use data for candidate elected to parliament in four German federal election held between 2002 and 2013. Similarly, Wong (2010) examine the political connections and firms'

performance: the case of Hong Kong and used return of equity as a proxy of performance measured and market to book ratio. The study of Oli (2021) use panel data to examine the performance of banking institutions in Nepal.

Hence, corporate performance is affected by several endogenous and exogenous factors and those factors can be financial and non-financial factors. From above reviews spotted that the corporate governing system is a very crucial factor to influence firm performance and the governing system is directly affected by general election from long-distance that shown in figure 1.1. Therefore, further analysis of the impact of the national election on corporate performance is presented in section 4 by using the data and research design specified in section 3.

## Methodology:

### Data:

This paper has employed panel data from the listed insurance companies in Nepal Stock Exchange Limited (NEPSE). Data were collected from the year 2015 to 2021 including 18 insurance companies covering 7 life insurance companies and 11 non-life insurance companies. We have chosen this period because to two reasons: First, this is the most recent data to use a valid analysis after the 2015 devastating earthquake and promulgation of new constitution of the Federal Republic Democratic Nepal. Second, after the restructuring of Nepal with new constitution, the first election for local, provincial, and federal level was held in 2017-18. The total number of observations consist of 126. The list of companies taken for random sampling are given in annex.

### Research Design:

This study has used descriptive causal comparative research design by using Generalize Least Squared (GLS) method in fixed/random effect estimation procedure. First, we develop simple panel ordinary least squared (POLS) estimate to check whether the data analysis method is fit or not. To analyze the POLS, this study has set the following simple equation;

$$Y_{it} = \alpha + \beta_1 D\_election_{post\,t} + \partial_n X_{it} + \epsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots (i)$$

Where, $Y_{it}$ represents the target variable as a proxy of corporate performance representing a market price per share (MPS) in Nepali currency (Rs), dividend payout ratio (DPS) in percent, and return on assets (ROA) in percent respectively. Similarly, $D\_election_{post}$ represents the dummy variable of post-election value 1 and 0 otherwise, and $X_{it}$ represent the firm specific or control variables used in this analysis. Likewise, $\alpha$ indicates the intercept or mean value in the model and $\beta_1 \; and \; \partial_n$ are the coefficients of D_election and control variables respectively. Here, $n = 1,2,3 \; and \; 4$ is the indicators of respective control variables which is defined in annex 3.2. $\epsilon_{it}$ is the value of error term ant this is a very important factor in panel data analysis. Likewise, $i \; and \; t$ represents the number of panel (firms) and time in year respectively. While estimating the research design, we have assumed that each panel is autonomously independent. In another word, each firms has separate intercept. The value of $\epsilon_{it}$ has two part including random effort and average fixed. This further can be written as follows:

$$Y_{it} = \alpha + \beta_1 D\_election_{post\,t} + \partial_n X_{it} + \epsilon_{it}(e_{it} + \mu_{it}) \dots\dots\dots\dots\dots\dots\dots\dots (ii)$$

Or for error term only,

$$\epsilon_{it} = e_{it} + \mu_{it} \dots\dots\dots\dots\dots\dots\dots\dots (iii)$$

Further, an analysis of the national election and its impact on corporate performance, we have developed three basic models with and without control variables in both pooled ordinary least squired (POLS) and generalized least squared (GLS) estimation. To make the matter more specific, above equation (ii) can be written in the following forms:

$$MPS_{it} = \alpha + \beta_1 D\_election_{post\,t} + \partial_1 EPS_{it} + \partial_2 MS_{it} + \partial_3 FS_{it} + \partial_4 NP_{it} + \epsilon_{it}(e_{it} + \mu_{it}) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (iv)$$

$$DPS_{it} = \alpha + \beta_1 D\_election_{post\,t} + \partial_1 EPS_{it} + \partial_2 MS_{it} + \partial_3 FS_{it} + \partial_4 NP_{it} + \epsilon_{it}(e_{it} + \mu_{it}) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (v)$$

$$ROA_{it} = \alpha + \beta_1 D\_election_{post\,t} + \partial_1 EPS_{it} + \partial_2 MS_{it} + \partial_3 FS_{it} + \partial_4 NP_{it} + \epsilon_{it}(e_{it} + \mu_{it}) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (vi)$$

Here, equations (iv), (v), and (vi) have targeted to separate target variables representing corporate performance from the market, investors, and firm's own perspective. Before we go further analysis, we had estimated predatory test to check whether the POLS is suitable or analysis should go through fixed/random effect analysis by using Breusch-Pagan test. BP test was done for model fit but we also performed descriptive analysis and correlation analysis to observe the presence of multicollinearity. Simple correlation analysis can detect multicollinearity. Similarly, we also performed the Hausman test for heterogeneity and normality test for residual distribution detection purposes. As per the objective of this paper, we have performed descriptive-causal comparative analysis and the empirical analysis results are presented in section 4.

## Data Analysis and Discussion:

This paper uses descriptive and causal comparative analysis to examine the impact of national election on corporate performance through panel data analysis approaches. Before directly go to the inferential analysis, we have done some basic analysis as well.

**Descriptive Analysis:**

The result of descriptive analysis present in table 1

**Table 1**
**Descriptive Statistics**

| Variable | Observation | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| **MPS** | 126 | 1,093.75 | 790.61 | 250.00 | 4,095.00 |
| **DPS** | 126 | 15.68 | 17.72 | 0.00 | 98.50 |
| **ROA** | 126 | 7.70 | 15.60 | (113.93) | 65.58 |
| **EPS** | 126 | 26.90 | 20.11 | (85.67) | 105.38 |
| **MS** | 126 | 19.14 | 107.61 | 1.01 | 1,213.18 |
| **FS** | 126 | 10,399.60 | 19,257.39 | 227.34 | 121,318.20 |
| **NP** | 126 | 209.23 | 192.93 | (259.01) | 1,406.43 |

*Source: Authors own calculation by using stata.*

Table 1 shows a descriptive statistic of major variables used in an empirical analysis for this paper. As already mentioned, that MPS, DPS, and ROA are the dependent variables, whereas EPS, MS, FS, and NP are control variables in the model. Our major explanatory variable is not listed here because we have used that as a dummy variable which does not make any sense. Descriptive statistics provides a quick nature of data including mean, standard deviation, minimum and maximum scatter of data, and the available number of observations.

**Correlation Analysis:**

Pearson's correlation matrix provides that at what degree of association is in between the variables and to which direction. It does not provide a direction of association but also gives an idea of multicollinearity level between two independent variables. Therefore, we have performed Pearson's correlation analysis and the results are presented in table 2.

**Table 2**
**Correlation Matrix**

| | MPS | DPS | ROA | D_election | EPS | MS | FS | NP |
|---|---|---|---|---|---|---|---|---|
| MPS | 1.0000 | | | | | | | |
| DPS | 0.4858 | 1.0000 | | | | | | |
| ROA | 0.0738 | 0.0128 | 1.0000 | | | | | |
| D_election | (0.3716) | (0.1534) | (0.2588) | 1.0000 | | | | |
| EPS | 0.1512 | 0.1968 | 0.0710 | (0.1109) | 1.0000 | | | |
| MS | 0.0785 | 0.0249 | (0.0579) | 0.1118 | (0.1105) | 1.0000 | | |
| FS | 0.2322 | 0.3833 | (0.1552) | 0.2280 | (0.1596) | 0.5757 | 1.0000 | |
| NP | 0.0617 | 0.4160 | 0.0425 | 0.3734 | 0.1855 | 0.1984 | 0.5750 | 1.0000 |

*Source: Authors own calculation by using stata.*

Table 2 illustrates an association analysis of each variable used in the model. The correlation between MPS and DPS, ROA, EPS, MS, and FS has positive which indicates that there is a positive relationship between MPS and DPS, ROA, EPS, MS, and FS. However, the major explanatory variable D_election is negatively correlated with MPS which shows that there is a negative relationship between an election and market performance. Similarly, DPS has also the same situation as MPS. However, ROA is only positively correlated with EPS, and the rest of all variables are negatively correlated with ROA. From this table, the analysis concludes that national election has no direct relationship with corporate performance proxy variables and no problem of multicollinearity exists.

## Empirical Analysis Results:

**Regression Analysis:**

As per the objective of this paper, first we perform simple panel data based OLS regression analysis and results has presented in table 3.

**Table 3**
**Simple Pooled OLS regression estimates**

| | MPS | | DPS | | ROA | |
|---|---|---|---|---|---|---|
| Variables | (1) | (2) | (1) | (2) | (1) | (2) |
| D_election | -591.23 (-4.055)*** | -676.42 (-4.293)*** | -5.47 (-1.718)* | -11.55 (-4.088)*** | -8.13 (-3.031)*** | -10.54 (-1.871)* |
| Constant | 1431.59 (10.55)*** | 1163.43 (8.23)*** | 18.80 (7.761)*** | 9.44 (3.425)*** | 12.34 (6.406)*** | 11.92 (2.782)*** |
| Fixed effect | No | No | No | No | No | No |
| Control variables | No | Yes | No | Yes | No | Yes |
| R-squared | 0.138051 | 0.275231 | 0.023523 | 0.368986 | 0.06697 | 0.147943 |
| No of observation | 126 | 126 | 126 | 126 | 126 | 126 |

*Source: Authors own calculation by using stata.*

*Note: Value in parenthesis is t-value and sign ***, **, and * represent the level of significance with the values 0.01, 0.05, and 0.1 respectively.*

Table 3 shows baseline regression analysis for the selection of the suitable methods to choose a final output of this analysis. We have modeled two approaches of each analysis through POLS including control variables and excluding them for the test of Breusch-Pagan test for heteroskedasticity problem in the analysis. The results of each model's BP test has presented in table 4. Meanwhile, let us summarize the simple PLOS results. The beta coefficient of D_election with MPS is negative and significant at 0.01 level in both panel (1) and panel (2) which indicates that there is a negative impact of post-election on corporate performance in comparison to pre-election year's performance from the market performance perspective. Similarly, the coefficient of D_election with DPS is also negative which also shows that from the investor's perspective, post-election performance is not good. However, the level of significance is just 0.10 level. Likewise, the beta coefficient of D_election with ROA is also negative and significant indicating that there is a negative impact of the election on corporate performance from a corporate perspective.

**Breusch-Pagan test**

This paper has performed the Breusch-Pagan test for the further analysis of impact through panel data analysis model to be fit in given data set. Based on simple BP test analysis, we can go for that whether the conclusion of impact analysis can be drawn from this POLS estimate or need to go ahead with an advanced estimation method? Thus, the result of the BP test has given in table 4.

**Table 4**
**Breusch-Pagan test**

| | MPS | | DPS | | ROA | |
|---|---|---|---|---|---|---|
| Variables | (1) | (2) | (1) | (2) | (1) | (2) |
| D_election | -1.456 (-4.291)*** | -1.499 (-4.035)*** | -0.088 (-0.166) | -111.652 (-0.725) | 0.218 (0.211) | 1.901 (2.248)** |
| Constant | 1.823 (7.155)*** | 1.544 (4.230)*** | 1.050 (2.633)*** | 124.343 (0.619) | 0.875 (1.122) | -0.919 (2.782)*** |
| Control variables | No | Yes | No | Yes | No | Yes |
| P-value (Chi-square) | 0.000 | 0.000 | 0.731 | 0.587 | 0.392 | 0.000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Sum of Squares | 65.372 | 83.231 | 0.237 | 0.059 | 1.469 | 693.88 |
| No of observation | 126 | 126 | 126 | 126 | 126 | 126 |

*Source: Authors own calculation by using stata.*

*Note: Value in parenthesis is t-value and sign ***, **, and * represent the level of significance with the values 0.01, 0.05, and 0.1 respectively. Dependent variable is scaled u-hat square in each model. Ho: POLS is fit for this analysis.*

Table 4 shows the Breusch-Pagan test result for each estimated model in this analysis. As suggest by the results, an analysis the impact of election on corporate performance in market and firm specific or corporate within should go for further advance estimation method that is random effect method. The test of BP has rejected the null hypothesis of model is fit for MPA and ROA. However, for ROA has contradicting with control and without control variable but without control has rejected the H0 because this is major test in this paper so we cannot take risk of validation in the results. Therefore, further analysis will be done through the random effect model (REM). However, for DPS panel has accept the null hypothesis of model fit which indicates that the impact assessment of national election of DPS as a proxy for the investor's prospective can be conclude through simple POLS estimation.

## Generalized Least Squared (GLS):

After carefully testing the model suitability further impact analysis has done through random effect model with Generalized Least Squared (GLS) method. The regression analysis through GLS has presented in table 5.

**Table 5**
**Random Effects (GLS) Estimates**

| | MPS | | DPS | | ROA | |
|---|---|---|---|---|---|---|
| Variables | (1) | (2) | (1) | (2) | (1) | (2) |
| D_election | -676.42<br>(-4.961)*** | -218.610<br>(-2.690)** | -11.546<br>(-3.921)*** | -4.825<br>(-1.728) | -10.962<br>(-2.396)** | -13.518<br>(-2.896)** |
| EPS | 6.735<br>(1.998)** | 5.733<br>(1.417) | 0.132<br>(2.227)** | 0.148<br>(1.816)* | -0.099<br>(-0.644) | -0.237<br>(-2.561)** |
| MS | -0.724<br>(-1.016) | 1.708<br>(11.21)*** | -0.040<br>(-2.242)** | -0.023<br>(-3.355)*** | 0.016<br>(1.864)* | 0.013<br>(1.353) |
| FS | 0.0183<br>(3.592)*** | -0.032<br>(-0.856)*** | 0.001<br>(2.177)** | -0.000<br>(-2.357)** | 0.000<br>(1.685)* | -0.000<br>(-1.208) |
| NP | -0.180<br>(-0.398) | -0.759<br>(-3.293)*** | 0.028<br>(3.746)*** | 0.022<br>(1.860)* | 0.033<br>(1.108) | 0.000<br>(1.428) |
| Constant | 1163.43<br>(8.692)*** | 1517.89<br>(13.87)*** | 9.440<br>(2.840)*** | 13.337<br>(4.061)*** | 12.709<br>(3.221)*** | 15.205<br>(3.832)*** |
| Fixed effect | No | Yes | No | Yes | No | Yes |
| Year effect | Yes | Yes | Yes | Yes | Yes | Yes |
| P-value | 0.0049035 | 0.588242 | 0.000000 | 0.379227 | 0.000558 | 0.147943 |
| No of observation | 126 | 126 | 126 | 126 | 126 | 126 |

*Source: Authors own calculation by using stata.*

*Note: Value in parenthesis is z-value and sign ***, **, and * represent the level of significance with the values 0.01, 0.05, and 0.1 respectively.*

Table 5 shows the results of random effects analysis in different panels. The table illustrates three different dependent variables and each of them has two separate models of GLS. In panel (MPS) 1, the beta coefficient of D-election is negative with MPS and significant at level 0.01. This indicates that the impact of the national election on corporate performance from a market perspective is more negative than the pre-election period. In other words, prior to the national election of 2017-18 was more performing market of insurance companies in Nepal. We have also estimated fixed effect (shown in panel MPS 2) which also do support the similar result as provided by panel 1 estimates. However, other control variables have a different outcome, especially for EPS and FS have the opposite impact from random effects and fixed effects approaches. But due to validation purpose, I would conclude from fixed effect purpose because the fixed effect panel has addressed the heterogeneity and random bias problem in the estimation.

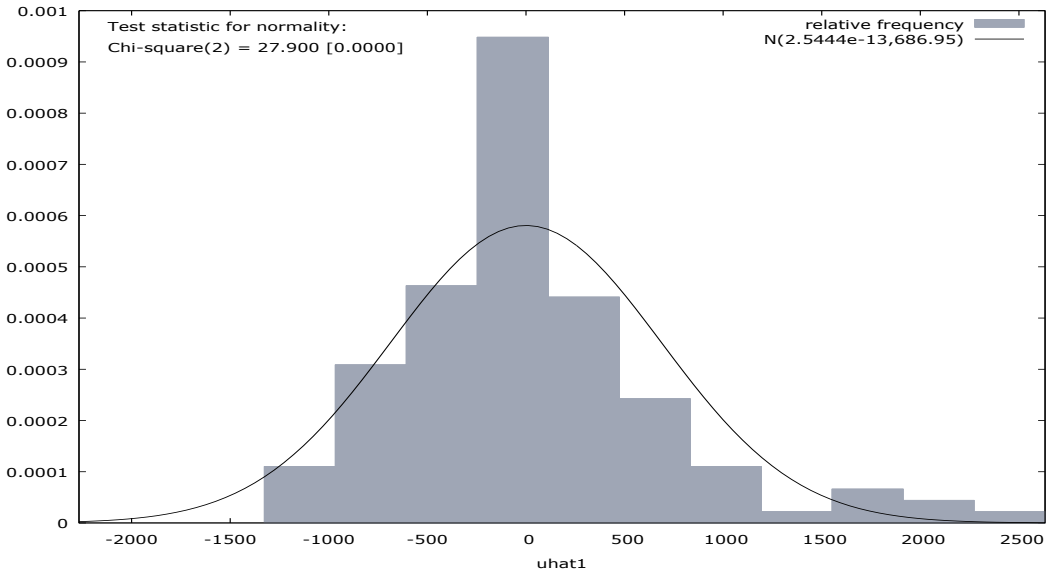
Similarly, the beta coefficient of D-election with DPS is negative in random effect and fixed-effect analysis. However, only panel (1) provides a significant negative impact on the DPS which explained that the dividend distribution system of insurance companies was good prior to the national election. As our main concern is to analyze the impact of the national elections on corporate performance, the other control variables are not explained more in this analysis. Another model in this analysis is to investigate the impact of the national election on corporate level performance which is indicated by ROA. Return on assets shows the quality and efficiency of organizational properties. The quality of corporate assets is determined by how much return they provide in comparison to the investment. Here, the beta coefficient of D-election is negative and significant with ROA which indicates that the quality of corporate assets in return was good prior to the national election. The intuitive behind this result may after the election government start running parallel three tiers of government and each level has their autonomous right to make separate fiscal policy which directly affects the business organization. Due to the adverse effect of elections in Nepal, we can say that this type of election cannot provide a better business-friendly environment. But, they do control economic activities unnecessarily at multiple levels of the governing system from different facets. As a result, the overall corporate performance of Nepalese insurance companies is also affected by the national election 2017-18.

Although the new election provides like-minded leadership at a policy level who can work better than the existing ones in the political party-led election system, there is an equal chance of being elected below average or unqualified person to hold the position. This type of election system can be costly from an economic perspective and also send back the possibility of corporate potential within his/her jurisdiction. An unfair and costly election system can increase corruption, undue influence, misuse of policy, promote underground economy, and many more adverse impacts to the corporate performance of any business sector in the nation. During election time, political parties do pressurize corporate houses for funding in their campaign which can be a motivation for corruption for political leaders and chances of engaging in the underground economy for corporate houses. At least this situation may not be applicable in insurance companies directly but indirectly it exists everywhere across the corporate sectors in the nation.

Further, this paper also performed some robustness including heterogeneity test, normality test, autocorrelation test, and colinearity to justify the regression estimates based on random effects and fixed-effect analysis. Form panel MPS both Breusch-Pagan test and Hausman test support the consistency of the GLS model. Similarly, the test of normality also provides evidence of the

normal distribution of residuals for every three panels. For representatively figure 2 has presented below.

**Figure 2**
**Normality Test Graph**




*Source: Author's own calculation based on MPS panel data.*

As empirical analysis results have provided evidence of negative impact on corporate performance in Nepal, we can relate this outcome from different facets as mentioned earlier that during the election and post-election activities of political parties and individual candidates. The dummy variable of post-election has clearly shown that insurance companies are not performing well either for market and investors or for companies themselves after the national election in 2017-18 in Nepal. Although, it is hard to say that the market volatility factor is only a national election but it is one of many factors. Therefore, this analysis also used major control or firm-specific variables to track the cross-impact of the national election on corporate performance and that correspondingly provides evidence of clear impact on corporate performance by the national election.

## Conclusion:

This paper has analyzed the impact of the national election on corporate performance by using panel data from listed insurance companies over the period 2015 to 2021. The proxy variables of corporate performance have used MPS, DPS, and ROA for market performance, investor's performance, and firm's performance respectively. The study uses the generalized least squared (GLS) method for the final impact assessment. Empirical analysis shows that the beta coefficient of D-election is significantly negative with all performance proxy variables that is MPS, DPS, and ROA in random effect estimates. This indicates that there is a random effect of the national election on corporate performance and provides a bad impact on corporate performance after the national election-2017-18. Similarly, analysis of fixed effects also supports a similar impact on

all three models but panel DPS is not significant. For the robust test, this paper has performed the Breusch-Pagan test and Hausman test which supports consistency of the analysis.

Overall analysis suggests that the four levels of elections: local level, provincial level, federal level, and national assembly election do affect adversely the corporate performance of Nepal. Nepal's election system is very expensive and candidates and parties spend a huge amount of money on the election campaigns. Political parties did not provide corporate-specific policy and policy related to economic development that vibrant economic activities in overall economic growth and they focused only on battling with their opposition party to win the election. But, they engaged the corporate sector in election financing which is also supported by the findings of the Asian Foundation report (2018). From this analysis, it concludes that our national election is not favorable to the corporate sector due to the structure and practice of election procedures in Nepal. Until and unless it promote corporate sectors, Nepal cannot achieve sustainable economic growth and development. Therefore, to improve economic development, Nepal should restructure the election system or should control such economic activities which harm corporate sectors.

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## Annexes :

**Annex 3.1. List of Insurance Companies Selected for sampling**

| S.N. | Name of Insurance companies | Time | No. of observation |
|---|---|---|---|
| **1** | Nepal Life Insurance Company Limited | 2015-2021 | 7 |
| **2** | Prime Life Insurance Company Limited | 2015-2021 | 7 |
| **3** | Asian Life Insurance Company Limited | 2015-2021 | 7 |
| **4** | Gurans Life Insurance Company Limited | 2015-2021 | 7 |
| **5** | Surya Life Insurance Company Limited | 2015-2021 | 7 |
| **6** | National Life Insurance Company Limited | 2015-2021 | 7 |
| **7** | Life Insurance Corporation Company Limited | 2015-2021 | 7 |
| **8** | Everest General Insurance Company Limited | 2015-2021 | 7 |
| **9** | Himalayan General Insurance Company Limited | 2015-2021 | 7 |
| **10** | Lumbini General Insurance Company Limited | 2015-2021 | 7 |
| **11** | Prabhu Insurance Company Limited | 2015-2021 | 7 |
| **12** | Neco Insurance Company Limited | 2015-2021 | 7 |
| **13** | Premier Insurance Company Limited | 2015-2021 | 7 |
| **14** | NLG Insurance Company Limited | 2015-2021 | 7 |
| **15** | Shikhar Insurance Company Limited | 2015-2021 | 7 |
| **16** | Siddhartha Insurance Company Limited | 2015-2021 | 7 |
| **17** | United Insurance Company Limited | 2015-2021 | 7 |
| **18** | Nepal insurance Company Limited | 2015-2021 | 7 |
| | Total number of observations | | 126 |

*Source: Official websites and periodic reports of respective companies from 2015-2021.*

**Annex 3.2. Definition of dependent and independent variables**

| **Dependent variables** | | | | |
|---|---|---|---|---|
| **S.N.** | **Name of Variable** | **Symbol** | **Definition** | **Expected impact** |
| **1.** | **Market Price Per Share** | **MPS** | MPS is a dependent variable and it is defined as a proxy variable of market performance by a respective company and the value is given in Nepali currency i.e. NRs. | |
| **2.** | **Dividend Ratio** | **DPS** | DPS is the second dependent variable and it is defined as a proxy variable of investor's performance from a respective company and the value is measured in percent (%). | |
| **3.** | **Return on Assets** | **ROA** | ROA is the third dependent variable and it is defined as a proxy variable of corporate or firm's performance from assets quality prospect and the value is measured in percent (%). | |
| **Independent variable** | | | | |
| **1.** | **National Election** | **D_election** | D_election is a dummy variable representing a key explanatory or independent variable in this analysis. The value 1 is given for the post-election period and 0 otherwise. | -ve impact on MPS, DPS and ROA |
| **Control or firms specific variables h** | | | | |
| **1.** | **Earnings per share** | **EPS** | EPS is an independent variable and it is defined as a proxy variable of earning quality of investment and the value is given in Nepali currency i.e. NRs. | +ve (MPS, DPS and ROA) |
| **2.** | **Market size** | **MS** | MS is also an independent variable and it is a proxy of market coverage by the firm and the value is measured in the no. of shares outstanding in million. | -ve (MPS, DPS and ROA) |
| **3.** | **Firm size** | **FS** | FS is another an independent variable and it is a proxy of firms size or value of the firm and the value is measured in millions of Nepali currency i.e. NRs. | +ve (MPS and DPS) -ve (ROA) |
| **4.** | **Firms profits** | **NP** | NP is a final independent variable and it is a proxy of firms earning capacity or net profit and the value is measured in millions of Nepali currency i.e. NRs. | +ve (MPS, DPS and ROA) |

*Source: Authors own interpretation based on existing findings and intuitive analysis.*