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# THE IMPACT OF CORPORATE GOVERNANCE AND ITS CONSEQUENCES ON PROTECTING THE BANK'S ASSETS: EMPIRICAL EVIDENCE FROM KOSOVO BANKS

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**Abstract:** *This study aims to analyze the relationships between corporate governance instruments on the wealth of financial intermediaries in wide-ranging. The data employed in this study are secondary data from nine (9) commercial banks and covered the years 2013-2020. The approach used in data processing is a 2SLS estimation and multilevel mixed-effects for the dependent variable natural logarithm of total assets. The results provided by the econometric analysis show that board size, sovereign committees, Net Interest Margin (NIM), Non-Performing Loans (NPL's), and equity to liabilities have an important impact on the protection of the assets of financial institutions. While surprising results have been generated in the composition of the board structure in terms of gender diversity, they have turned out to be insignificant. The originality and value of this study lie in the approach of including the characteristics of the board, as well as the combination of some financial indicators different from previous studies, which makes more comprehensive the study of the impact of board composition on increasing the wealth of banks.*

**Keywords:** *Banks; Financial Ratios; Corporate Governance; 2SLS; ML Regression*

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## INTRODUCTION

A large number of businesses around the world at the beginning of the XXI century have encountered difficulties and are on the threshold of collapse, as a result of rapid change and the impact of the Covid-19 pandemic. Finally, it has been observed that inadequate application of corporate governance is considered a crucial factor of failure. However, in many studies, it has been reported that the non-implementation of corporate governance mechanisms has affected not only non-financial businesses but

also financial ones, respectively banks. Given that financial institutions, particularly banks, have a significant impact on intermediation between different stakeholders, which has a direct impact on economic growth. Caprio and Levine (2002) have found that the economic growth of some countries is supported by the banking industry because it helps with finance businesses. However, when we are discussing between two stakeholders, businesses on the one hand and the financial industry on the other, there are arguments and counter-arguments regarding asymmetry information. To eliminate this concern, many studies have been conducted on information asymmetry, which directly affects the components of corporate governance. Therefore, Craig *et al.* (2007) documented that the importance of corporate governance initially attracted the attention of the US authorities due to accounting scandals in firms Enron and WorldCom, etc., further arguing that the weak corporate governance system creates gaps for conflict of interest concerning the evaluation process.

Unfortunately, the banking industry's complexity is now visible in terms of reducing disproportionate evidence, but thankfully, there are accessible tools that can be utilized to enhance the proper flow of evidence and the quality of fiscal reporting Durguti and Arifi (2021). In this light, Basel Committee on Bank Supervision (BCBS) recommends that the structure of the board is a key aspect of a bank's efforts to promote transparency, responsibility, and effective supervisory reform in the context of an article entitled 'Enhancing Corporate Governance for Banking Organizations'. Grounded on the guiding principle of corporate governance (CG) for banks, addressing CG compliance in Kosovo, the Central Bank of Kosovo (CBK), as the single supervisory agency of the monetary sector, has enforced a tight application of this benchmark, which was reviewed in August 2019 (CBK 2019). The mission of this regulation is to strengthen the regulatory outline linked with good CG practices for banks licensed in Kosovo, as an integral component in preserving the banking sector's overall sustainability and stability. Secondly, the regulation establishes the minimum standards for the bank's owners, board of executives, and CEOs in light of their commitments to CG practices.

Therefore, to conduct this research we have used the panel data for 9 banks that operate in the Kosovo market. Explicitly, in this research we have posed three research questions:

**RQ1:** To observe and evaluate whether commercial banks in Kosovo follow the practices of CG, as defined by the regulator.

**RQ2:** To observe the impact of CG as a determinant in establishing as well as maintaining financial steadiness in the sample of selected banks.

**RQ3:** To observe the consequences in the case of non-implementation of CG in the sample of selected banks.

The contribution of the study is expected to be in several aspects. First, in advancing and raising the debate among scholars about corporate governance mechanisms. Second, the application of the dynamic approach through the 2SLS method and multilevel mixed-effects regression, to eliminate the dilemmas between the studies conducted, and third, in terms of policy-making implications. So, premised on this perspective, the authors regarding the selection of variables in the framework of this research, using panel data and approaches to econometric estimates are based on two studies performed by Benvenuto *et al.* (2021) and Durguti and Kryeziu (2021) where they have analyzed the influence of CG and some financial indicators in Romania and Italy, respectively the case of Kosovo to investigate the possible consequences in profitability and shareholders' value protection. The approaches used in these two cases are VAR techniques, OLS, and 2SLS estimation. In addition, the econometric literature for panel data studies when  $N > T$ , and because the data are endogenous, the 2SLS approach is preferred, and for this reason, our study applies 2SLS estimation on one side, and multilevel mixed regression effects, on the other hand, to analyze if we have any significant differences between the approaches applied.

## LITERATURE REVIEW AND HYPOTHESIS

Several academic and empirical studies have been devoted to the impact of CG components on the capital structure of a company. Conferring to the literature, the main components of CG recognized to affect funding decisions are the following: board size, board independence, executive compensation, and executive entrenchment. Nevertheless, the results are varied and questionable.

Corporate governance reconciliation studies offer a wide range of qualitative and quantitative analyzes that reveal the degree, scope, and levels of compliance (Seidl 2013; Shrivvers and Niamh 2015; and Okhmatovskiy 2017), in addition to its importance to the bank's performance and value (Stiglbauer and Velte 2014; Rose 2016; Roy and Pay 2017). Besides this, the most recent study in the field of CG, performed by Benvenuto *et al.* (2021), analyzes the influence of CG in Romania and Italy, using financial indicators also CG components in productivity and shareholder value protection turns out to be significant in both cases. This study's sample included 34 Romanian banks as well as over 350 Italian banks that used the dynamic VAR techniques, which were integrated at various levels. And the latest review, performed by Durguti and Kryeziu (2021), examined the influence of corporate governance and its impact on bank profitability in Kosovo from 2013 to 2020. According to the conclusions of this study, which used OLS regression and 2SLS evaluation, corporate governance has a statistically significant influence on bank profitability.

Theoretically, revisions are based on the hypothesis that banks with poor CG should have inferior ratings compared to banks with effective CG, as stakeholders do

not tolerate a higher risk of expropriation without receiving a premium for such investments Gombpers *et al.* (2003), and Zimmermann *et al.* (2006).

A confident association between quality of governance and performance has been observed in European studies (Drobetz *et al.* 2003; Gombpers *et al.* 2003; Zimmermann *et al.* 2006; Renders *et al.* 2010; Bistrowa and Lace 2012), the Japanese banking industry and economy have been studied by Hiroyuki and Nguyen (2007), and Bhagat *et al.* (2008). Garcia *et al.* (2021) assessed the effects of board structure on default risk for European banks, such as the composition of the board, sovereign commissions, representation of women on boards, and earnings quality. The Generalized Method of Moments (GMM) dynamic approach was used to conduct an empirical investigation. The study's findings indicate that the components chosen for the study have a significant impact.

As distinguished earlier, various opinions regarding board size dominate Berger *et al.* (1997) argued that firms with large board numbers have low debt. This fact, they argue that the size of the board can raise pressure on management to decrease the level of debt, and to increase the productivity of the firm. However, Seidl *et al.* (2013) have contested the findings, arguing that there is a consistent connection between CG components and capital structure. Moreover, Bezawada and Adavelli (2020) argue that the size of the board appears to have a strong confident impact on the bank's performance and assets, utilizing a sample of 34 banks from 2009 to 2018 employing the OLS approach. The findings regarding the size of the board are contradictory among different revisions and so far, we do not have any common consensus. Therefore, in this study we have hypothesized:

**H1:** There is a significant positive association between board size and bank assets.

Additionally, about the configuration of the board composition in terms of gender, studies are smaller in number, but the prevailing opinion is that a board that has a mixed structure of females and males, has a predisposition to be more effective (AlHares and Ntim 2017). Consequently, some recent studies on governing boards in terms of gender were conducted, and all conclusions show that mixed boards in terms of gender inspire additional efficiency to the team. These conclusions are supported by a current study from Wahid (2019); Almudena *et al.* (2018); and Kamalnath (2018). Furthermore, based on previously contradictory findings, Owen and Temesvary (2018) claim that there is a non-linear connection among gender diversity on boards and bank performance, using instrumental variables statistics from over 90 US banks from 1999 to 2015. Likewise, they advocate that to have a confident impact, the gender diversity threshold should be reached otherwise, it may have no consequence. Based on this outcome and an assessment performed by Durguti and Kryeziu (2021), they concluded that gender diversity in the case of Kosovo's banking system had an irrelevant effect on

performance and bank value. Therefore, our hypotheses regarding diversity in terms of gender are:

**H2:** There is an insignificant association between female gender and bank assets.

Besides that, in a survey performed by Simionescu *et al.* (2021) on the consequences of board gender diversity on businesses performance, using a sample of 500 companies from the tech industry, the consequences conferring to OLS produce a positive consequence, but conferring to a random and fixed effect on the ROA, the result is non-significant in businesses performance. Therefore, based on this argument our hypothesis is:

**H3:** There is an insignificant association between male gender and bank assets.

And the last component but not of importance is the variable-specific commissions created by investors, as a result of the request of supervisory bodies, which in the scientific research are known as sovereign boards. Numerous revisions have confirmed the effectiveness of the independence of these boards in controlling management and protecting the assets of investors, Seidl *et al.* (2013) documented a negative association between sovereign boards and the asset structure of companies. Al-moneef and Samontaray (2019) reached the same conclusions after analyzing the components of CG and the productivity in the Saudi banking system, arguing empirically that board independence harms the bank's productivity, correspondingly in ROE. Therefore, our hypothesis presented is:

**H4:** There is a significant positive association between sovereign boards and banks' assets.

The study also applied some of the core financial factors to measuring the strength of financial sustainability. These indicators are presented as control variables to investigate their effect on the assets of the firm, respectively the banks. For these control variables, no hypothesis will be presented, as the emphasis is oriented on the components of corporate governance and their impact on increasing the value of the firm, respectively the bank.

## ECONOMETRIC ANALYSIS

### *Data and Sample*

The sample contained within the analysis consists of 9 commercial banks licensed by the Central Bank of Kosovo, out of a total of 11 banks operating in Kosovo. Kosovo's banking sector is a relatively new sector, dominated by over 86.5<sup>1</sup> percent of banks with foreign capital. In this study, panel data were used, including the period 2013-2020, and this data was provided by audit reports for each bank in particular, and then processed to suit the research. Based on previous studies conducted by different authors, different techniques have been used to come to the most accurate conclusions.

Therefore, our study includes an adequate combination of factors including corporate governance parameters and key financial indicators. Various authors have applied different models to test the impact of CG parameters on productivity and shareholder protection. The models that are most suitable for this study are the GMM estimator, respectively 2SLS as this method calculates the endogeneity of the data and the robustness of the instruments to achieve the assessment of interdependence among the parameters of CG and protection of shareholder value. Hence, based on the reasons presented above, the research's main purpose is to examine the issues of CG and the implications of their non-implementation for the protection of the bank's value. Corporate governance systems are being developed to maintain strong public confidence in the banking industry Fernandez et al (2020). Based on this premise, an empirical method to variable selection and model application was developed based on research done by Fernandez *et al.* (2020) and Durguti and Kryeziu (2021).

### *Variables*

The dependent variable in this study is total assets (natural logarithm of total assets), this variable within the research displays the number of assets expressed in millions for a certain fiscal year. According to Christaria and Kurnia (2016), assets are resources managed by the bank from which the bank assumes to generate benefits in the future through the placement of free financial assets such as loans, investments in financial instruments. This variable is computed using the log transformation of total assets and represented using the formula.

$$\ln_{(x)} = \log_e(x) = Y$$

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<sup>1</sup>Central Bank of Kosovo: Financial System monthly information for December 2020.

The study aims to realize the predicted outcomes, first and foremost on the research questions posed and subsequently on the verification of the hypotheses, through the independent and control variables. Independent variables are defined components of corporate governance (board size, composition structure male, composition structure female, and subcommittees). The control variables, on the other hand, are net interest margin, non-performing loans, and equity-to-liabilities.

It is worth noting that the governing structures of the regulatory authority have released regulations on the establishment of committees, which are an integral part of the CG component, according to the requirements of the Basel Committee.

The early finding of the study is that the financial intermediaries in Kosovo are implementing with precision and high efficiency, the component of CG that derive as an obligation set by the Central Bank of Kosovo, as well as the regulatory set of the Basel Committee. CG practices have undoubtedly influenced the behavior and experience of banks from European Union countries on the one side, as well as the already highly professional local personnel on the other. It is also worth mentioning that Kosovo's banking system functioned successfully at the time and during the Covid-19 pandemic, supporting households, SMEs, and large businesses in general. Table 1 gives us a detailed description of the factors applied in this study, starting with the number of observations, the lowest, largest, mean, and standard deviation.

Table 1: Variable and Statistics Description (Source: Authors' calculation)

Variables	Description	Obs.	Mean	St.dv.	Min.	Max.
<b>Dependent Variable</b>						
$L_{assets}$	Natural Logarithm of Total Assets	72	6.515	1.385	5.029	9.479
<b>Control Variables</b>						
<b>NIM</b>	Net Interest Margin	72	0.041	0.014	0.001	0.077
<b>NPL's</b>	Non-Performing Loans	72	0.057	0.042	0.015	0.244
<b>ELR</b>	Equity to Liabilities Ratio	72	0.158	0.171	0.076	1.566
<b>Independent Variables</b>						
<b>BS</b>	Board Size	72	0.803	0.135	0.698	1.041
<b>CSM</b>	Composition Structure Male	72	0.687	0.142	0.477	0.903
<b>CSF</b>	Composition Structure Female	72	0.225	0.203	0.000	0.477
<b>SBC</b>	Subcommittees (Independent Committees)	72	0.642	0.178	0.000	1.041

Conferring to the description numbers presented in Table 1, especially in the control parameters, the mean value of assets of these banks in the investigation is 6.52 billion, with a mean value of 4.1 percent of NIM and a mean value of 5.7 percent NPL's. Whereas the statistics on CG from the explanatory table will be discussed more explicitly in the empirical section, the facts in Table 1 are presented with  $\ln_{(x)}$  to convert them into



coefficients and eliminate potential problems that could be presented in the econometric examination on the endogeneity of the data.

The data used are panel data, and this data as such before applying the econometric model is preferable to do some preliminary diagnostic tests on the suitability of the 2SLS estimation as well as multilevel mixed-effects regression. One such preliminary test is multicollinearity, known as the correlation matrix. We have applied this test to evaluate the degree of interrelationship between variables.

Table 2: Correlation Analysis (Source: Authors' calculation)

	<i>L<sub>assets</sub></i>	NIM	NPL's	ELR	BS	CSM	CSF	SBC
<i>L<sub>assets</sub></i>	1.000							
NIM	-0.064	1.000						
NPL's	0.280	-0.039	1.000					
ELR	0.110	-0.334	-0.065	1.000				
BS	0.059	-0.239	0.099	0.296	1.000			
CSM	0.426	-0.253	0.151	0.200	0.397	1.000		
CSF	0.240	-0.097	-0.006	0.267	0.718	0.190	1.000	
SBC	-0.117	0.003	-0.382	0.188	0.283	0.021	0.416	1.000

Furthermore, the outcomes from the correlation analysis exposed in Table 2 shows that the factors correlate them, and it is noted that the problem with multicollinearity does not exist as only some of the factors have a moderate association among themselves. The natural logarithm assets are seen to have positive associations with NPL's, equity to liabilities, BS, CSM, and CSF, while adverse associations exist between net interest margin and SBC. Other correlations are presented in Table 2.

### *Empirical Model*

The empirical approach must be carefully selected to design and employ an empirical model to examine the influence of CG parameters and some financial indicators on protecting banks' value. In this research, we use two of the most preferred approaches, which are considered to be the most appropriate to explore the impact of CG, NIM, NPL's and equity-to-liabilities on maintaining bank value. As a result, we will provide the equations for the two techniques, 2SLS and multilevel mixed-effect, in the following sections, beginning with the generic equation and then modifying our actual analysis. Our first specification uses 2SLS as a more adequate estimate when we are researching with condition  $N > T$ . In addition to the independent variables of CG, we as well use control variables to assess their consequences in protecting the value of banks.

Therefore, in the following, we will present the general equation of 2SLS.



$$Y_{it} = \sum_{j=1}^p \alpha_j Y_{i,t-j} + X_{it} \beta_1 + \vartheta_i + \varepsilon_{it} \dots \dots \dots (1)$$

In addition, because of the equations presented beyond, we will present the concrete equation for our research.

$$LAssests_{i,t} = \alpha + \mu(NIM)_{i,t} + \beta_1(NPL's_{i,t}) + \beta_2(ELR_{i,t}) + \beta_3(BS_{i,t}) + \beta_4(CSM_{i,t}) + \beta_5(CSF_{i,t}) + \beta_6(SBC_{i,t}) + \vartheta_i + \varepsilon_{it} \dots \dots \dots (2)$$

Mixed-effects models are distinguished by the presence of both fixed and random effects. The fixed effects are explicitly computed and are equivalent to ordinary regression coefficients. Random effects are presented based on their predicted variances and covariances rather than explicitly assessed (though they can be obtained after testing). Random effects can be random sampling or random coefficients, and the data clustering structure can include multiple levels of interconnected groups. As a result, mixed-effect models are also known as multilevel models and hierarchical models in the literature. The formulas of multilevel mixed-effect regression are:

$$Y_{it} = X\beta_{i,t} + Z\gamma_{i,t} + \varepsilon_{i,t} \dots \dots \dots (3)$$

$$X = \begin{bmatrix} 1 & \Delta_t & \Delta_{t+} \\ \vdots & \vdots & \vdots \\ 1 & \Delta_{tn} & \Delta_{t+,n} \end{bmatrix} \dots \dots \dots (4)$$

$$\beta' = [\beta_0 \beta_1 \beta_3 \dots, \beta_{t+,n}] \dots \dots \dots (5)$$

Our specific scenario's formula is derived from this formula, and it looks like this:

$$LAssests_{i,t} = \alpha + \beta_1(NIM_{i,t}) + \gamma_2(NIM_{i,t}) + \beta_3(NPL's_{i,t}) + \gamma_4(NPL's_{i,t}) + \beta_5(ELR_{i,t}) + \gamma_6(ELR_{i,t}) + \beta_7(SB_{i,t}) + \gamma_8(SB_{i,t}) + \beta_9(CSM_{i,t}) + \gamma_{10}(CSM_{i,t}) + \beta_{11}(CSF_{i,t}) + \gamma_{12}(CSF_{i,t}) + \beta_{13}(SBC_{i,t}) + \gamma_{14}(SBC_{15}) + \varepsilon_{it} \dots \dots \dots (6)$$

### *Econometric Findings*

Empirical analysis requires flow logic before commenting on the results, applying some diagnostic tests on the appropriateness of the applied approach. Therefore, the diagnostics of the approach was initially done through R<sup>2</sup>, wherein our case is 63.7 percent of the independent variables explain the dependent variables, also for

multicollinearity testing was applied VIF, where the mean value of the variables is 9.62 which proves that the data do not have multicollinearity problem.

Furthermore, in terms of heteroskedasticity, our test proves that the applied data do not have such problems, and finally, the Wald chi (2) for the endogeneity and constancy of the instruments proves that the applied approach is adequate since its value is 126.66. Indeed the results of the second model ML, based on the model's fitness, Wald chi (2) test is with coefficient 112.59, as well as p-value [0.000], proving that the model is suitable and the results are credible.

**Table 3: Parameter Estimates (Source: Authors' calculation)**

Description	2SLS Regression		ML Regression	
	Coefficients	P> z	Coefficients	P> z
<b>_cons</b>	5.502	0.000	6.512	0.000
<b>NIM</b>	-59.595	0.000	-58.105	0.000
<b>NPL's</b>	4.994	0.003	5.094	0.068
<b>ELR</b>	-1.405	0.027	-1.403	0.037
<b>BS</b>	8.192	0.011	11.092	0.066
<b>CSM</b>	-3.028	0.283	-4.023	0.311
<b>CSF</b>	-1.532	0.366	-1.332	0.394
<b>SBC</b>	-1.176	0.004	-1.266	0.007
<b>R<sup>2</sup></b>	0.6376	0.000	"-"	"-"
<b>Wald chi2</b>	126.66	0.000	112.59	0.000
<b>χ<sup>2</sup> Heteroscedascity</b>	13.32	0.213	"-"	"-"
<b>VIF</b>	9.62	"-"	"-"	"-"
<b>Observation</b>	72	"-"	72	"-"

*Note: ML Regression- multilevel mixed-effects regression. The empirical facts provided by the multilevel mixed-effect regression are closely similar to the 2SLS outcomes, with a slight variation in constant and consequence levels. It is important to note that we do not have results in which one model exhibits a level of negative/positive significance while the other model exhibits a level of positive/negative or does not offer an important result at all.*

The data observed during the research proved to be quite significant, providing specific justification for the research questions as well as verification of the hypotheses stated. According to the empirical evidence, the implementation of corporate governance components has consequences in protecting the assets and value of banks. As a consequence, based on empirical evidence, it is possible to infer that all commercial banks are applying the components of corporate governance defined by the regulatory body, namely the Central Bank of Kosovo. The highest number of board sizes among banks operating in Kosovo is 11, with the least number being 5. One characteristic that should be regarded concerning is the participation of gender diversity, specifically

female, in the composition of these boards, as empirical evidence indicates that only three of the nine banks evaluated in the composition of the board also have a female structure. The study used the significance of 1, 5, and 10 percent to test the parameter confirmation.

Findings results argue that financial features influence the protection of banks' assets, and what is considered crucial is that the two components of corporate governance board size and independent committees have resulted in the confirmation of hypotheses that they have an impact on preserving and increasing the value of banks according to both models. The results on gender diversity have shown insignificant results that are expectedly based on the hypotheses presented. The initial outcomes on financial indicators show that adequate management of credit risk management, respectively nonperforming loans, directly affects the increase of net interest margin, and an increase in net interest margin affects the increase of the bank's productivity. On the other hand, inadequate management of liquid assets affects the reduction of banks' assets, which is also found in our confirmed hypothesis where  $p=0.027$  according to the 2SLS, and  $p=0.037$  according to the multilevel regression.

Board size as the most vital component of CG is confirmed at the significance level of 1 percent based on both applied models. And this gives us indications that the proper functioning of the board of directors has a positive impact on the preservation of bank assets. These results are in the spirit of revisions steered by Chen *et al.* (2008) arguing that an optimal equilibrium of board of directors and their monitoring activities should provide a higher value for stockholders. García and Herrero (2018) concluded the same result after reviewing the structure of boards of directors and their influence on a firm's performance and preserving overall firm assets. Their research consists of three major issues, beginning with the reform developed in CG, the board size, and board independence and diversity, with the overall conclusion that appropriate board size has a positive effect on the firm's performance and preservation. The latest investigation conducted by Durguti and Kryeziu (2021) strongly supports the findings argued by Chen *et al.* (2008), and García and Herrero (2018), as the composition of the board of directors which does not exceed the number more than 11, have a positive impact on the productivity of banks as well as on maintaining and increasing the value of banks.

Otherwise, any overload of board size composition will be ineffective, due to diversity, creating informal groups that have negative consequences.

While the other equally important component is the independent committees where it has turned out to hurt maintaining the bank's assets at the level of 1 percent significance based on both applied models. This argues that their lack of establishment and adequate functioning reduces the wealth of financial institutions. This finding is in line with many studies conducted by Romano *et al.* (2012), and Dalton and Dalton (2005).

Finally, not because of their importance in this study NIM, NLP's and ERL, as in the 2SLS evaluation also in the ML evaluation have shown a significant consequence of 99 percent, which are directly a reflection of the running of CG in coordination with other levels of supervision within financial organizations, respectively banks.


## LIMITATIONS OF THE STUDY

This research, however, also has limitations in the presentation of the sample, as our sample includes 72 observations in the data panel, focusing mainly on banks that have time series from 2013 and at least until 2020, as well as these data to be audited by professional associations and companies. In this aspect, within this sample, two commercial banks were excluded which did not meet the criteria to be treated in the analysis in order not to distort the econometric findings. Therefore, the results of the research as such may not differ from the real situation but can be seen as a guide for the stakeholders participating in such investigations or their expansion. Moreover, when dealing with data that have endogenous characteristics, the empirical technique developed in this study is seen as the most appropriate. The only limitation of the 2SLS and ML mixed-effect models is that normal distributions are required for all unobserved predicted components. In many studies, normal distributions when exceeding the number of observations above 50 within the data panel do not pose any problem in terms of empirical results in the estimated coefficients.

## CONCLUSION

This study examined the association of corporate governance, some of the crucial financial indicators (NIM, NPL's, ELR, log board size, log male composition, log female composition, and log subcommittees), and the protection of shareholders value. Surprisingly, not such an investigation has been made to analyze the impact of corporate governance on efficiency. Moreover, in Kosovo, among 11 licensed banks by the Central Bank of Kosovo, nine banks show productivity, and what are the reasons behind the results are still unexplored. Therefore, research aiming to explore the reason behind such limitations of the banking sector carries huge significance. Such research needs to shape the aim of this research that attempts to examine the determinants of a bank's efficiency by giving special heed to ownership structures and board diversification. In the framework of this research, panel data for banks in Kosovo were used, applying a dynamic approach through instrumental regression analysis, respectively 2SLS and multilevel mixed-effect regression. The conclusions reached under this approach argue that the corporate governance components at the significance level of 1 percent confirm the hypotheses that the board of directors and independent committees are considered the main protectors of shareholder capital, and the bank as

a whole. Moreover, in Kosovo, the maximum number of board sizes reached 11, while the smallest number is 5. This number is considered an optimal size to govern professionally and without any other complications.

Another significant finding in this study is that the regulatory body, namely the CBK, has approved the directives derived as an obligation from the European Central Bank and the Basel Committee. As a result, the financial industry is required to establish CG bodies and strictly enforce the laws' directives. According to the study, all banks operating in Kosovo have met all of the requirements for the application of sound CG principles. Finally, we must emphasize that this research is of particular importance in the field of corporate governance as a whole, but a crucial significance for financial institutions in Kosovo. In future studies, to further enrich the sustainability and importance of corporate governance; it is suggested to apply other more specific corporate governance variables to analyze in more detail the effect of corporate governance components to protect shareholder value and the bank as a whole. 

## COMPLIANCE WITH ETHICAL STANDARDS

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### **Statement on the welfare of animals:**

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