Mednarodno inovativno poslovanje
Journal of Innovative Business and Management

The presence and impact of different board characteristics on the performance of the private companies in Kosovo

Gjyshinca Peja Merita*

Abstract: In the recent years, corporate governance has garnered significant attention, evolving into a notable topic for discussion. Over the past decade, the behaviour and conduct of boards of directors have taken an extraordinary dimension. Moreover, the unpredicted and unprecedented outbreak of the COVID-19 pandemic underscored the significance and the role of the business leaders, especially of the boards of directors. The purpose of this research is to study the presence and influence of various board characteristics on the performance of private companies in Kosovo. The research explores the relationship between board presence, board size, board independence, gender diversity, and the performance of these private companies in Kosovo. The research uses a quantitative approach, surveying large and medium-sized companies. A sample of 61 companies was selected to examine the correlation between board characteristics and company performance indicators such as Return on Equity (ROE), sales and profit. The findings show that 70% of the companies in the study have a board of directors.

Keywords: corporate governance, board of directors' presence, board of directors' characteristics, private companies
JEL classification: G34

**IEDC Bled School of Management, 4260 Bled, Slovenia*
meritagjp@gmail.com

Prisotnost in vpliv različnih značilnosti upravnega odbora na uspešnost zasebnih podjetij na Kosovu

Povzetek: V zadnjih letih je korporativno upravljanje pritegnilo veliko pozornosti in postalo pomembna tema razprav. V zadnjem desetletju so vedenje in ravnanja upravnih odborov dobila izjemne razsežnosti. Poleg tega je nepredviden in brezprecedenčen izbruh pandemije COVID-19 poudaril pomen in vlogo poslovnih voditeljev, zlasti upravnih odborov. Namen te raziskave je preučiti prisotnost in vpliv različnih značilnosti upravnega odbora na uspešnost zasebnih podjetij na Kosovu. Raziskava proučuje razmerje med prisotnostjo upravnega odbora, njegovo velikostjo, neodvisnostjo, spolno raznolikostjo in uspešnostjo teh zasebnih podjetij na Kosovu. Raziskava temelji na kvantitativnem pristopu, pri čemer zajema velika in srednje velika podjetja. Izbran je bil vzorec 61 podjetij, da bi raziskali korelacijo med značilnostmi upravnega odbora in kazalniki uspešnosti podjetja, kot so donosnost kapitala (ROE), prodaja in dobiček. Ugotovitve kažejo, da ima 70 % podjetij, vključenih v raziskavo, upravni odbor.

Ključne besede: korporativno upravljanje, prisotnost upravnega odbora, značilnosti upravnega odbora, zasebna podjetja

DOI 10.32015/JIBM.2025.17.2.11

Mednarodno inovativno poslovanje = Journal of Innovative Business and Management

ISSN 1855-6175

1 INTRODUCTION

Corporate governance is widely regarded as one of the most critical factors influencing a company's performance. The key participants in corporate governance are the Board of Directors, Management, and Shareholders (Aebi, Sabato, Schmid, 2012). According to OECD principles on Corporate Governance (OECD, 2023) the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. Together with guiding corporate strategy, the board is responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. One of the board's key roles is to monitor and control top management (Johnson et al., 1996).

The board of directors is widely considered one of the most important mechanisms of corporate governance and serves as a governance structure safeguard between the firm and its shareholders (Arora, 2015; H. Liu & Fong, 2010). The board of directors serves as the highest executive body within a company, holding responsibility of overseeing the company's management. Their duties include establishing the company's strategic direction, making major business decisions, and ensuring effective management while ensuring compliance with applicable laws and regulations. Bebchuk and Weisbach (2010) point out that the most common way that shareholders protect their interests is by appointing company directors.

The findings presented in this paper are based on a doctoral dissertation completed at a higher education institution in Slovenia.

The Characteristics of the Board of Directors

Board size is an important measure of Corporate Governance practices. It is one of the most analysed variables in the study of corporate governance. Board size refers to the number of individuals on the board. The relationship between Board of Directors size and company performance is a fundamental issue of corporate governance (Cheng, 2008). There are two different theories which describe the importance of board size and company performance. Agency theory, from an economic perspective, determines that fewer board members improve monitoring, control, and corporate finance performance (Jensen, 1993). On the other hand, the "resource dependence theory", based on a more sociological approach states that large boards improve advisory capacity, counselling, deliberation and external relations, and thus corporate performance (Pfeffer, 1972). Smaller boards often exhibit greater efficiency and agility, resulting in faster decision-making processes. With fewer members, it may be easier to reach a consensus and implement decisions. However, smaller boards may suffer from a lack of diversity in terms of perspectives and expertise. On the contrary, larger boards can offer a wider range of viewpoints and expertise, which can be advantageous when dealing with complex decisions. Nonetheless, larger boards may tend to be slower in reaching decisions. Adebayo, S. O., et al. (2013) found that board size has a negative significant relationship with firm's performance, so the small size is better because the large boards size needs high cost of coordination and expense such as rewards and incentives. Authors Belhaj and Mateus researched the effect of corporate governance on financial performance on eleven (11) European banks. The results show that the board size have a significant positive effect on bank performance. Therefore, the effect of the board size and company performance is not clear (Bennedsen, Kongsted & Nielsen, 2008), and the evidence for the importance of board size is mixed.

Board Independence

Another researched variable is board independence, which involves examining the ratio of independent directors to the total number of members on the BoDs. Independent directors are those who are not part of the management of the bank and independent from shareholders. The concept of board independence is closely tied to the presence of outside directors within the board of directors (Silva, 2005). Given that Kosovo's culture puts a strong emphasis on family control, achieving a clear separation of responsibilities between ownership, the Board of Directors, and Management functions (TMT) is often seen as challenging to implement. Board independence is considered crucial because outside directors are considered as true monitors' and can discipline the management and improve firm performance (Duchin et al., 2010).

Empirical research examines whether specific board structures correlate with enhanced firm value and performance. For example, Rosenstein and Wyatt (1990) provide evidence that shareholder wealth is affected by the proportion of outside directors by documenting a positive stock price reaction at the announcement of the appointment of an additional outside director. In contrast, Yermack (1996) finds no association between the percentage of outside directors and firm performance. Nicholson and Kiel (2007) argued that inside directors understand the business better than outside directors and so can make better decisions. Fuzi et al. (2016) examined the independence of the BOD and the performance of companies. The study showed a weak correlation between the percentage of independent directors and the company's performance. Authors Isik & Ince (2016) have reviewed the impact of two key corporate governance variables, board size and board composition, on commercial banks in Turkey during a time span of 5 years (2008-2012). Empirical results show that board size has a significant and positive impact on bank performance, while the board composition (inside vs. outside directors) does not have any effect on bank performance. Outside board members are not tied to the day-to-day operations of the firm and consequently they are likely to think more freely concerning the strategic alternatives open to the firm (Forbes & Milliken, 1999). Therefore, the evidence on the importance of outside directors is mixed, and this constitutes one of the hypotheses examined in this research study.

Women Directors

The concept of gender diversity has become a significant component of boards' composition worldwide. Gender diversity among board directors represents one of the key aspects of board diversity. It is defined as the proportion of women directors serving on a company's board, expressed as the ratio of women directors to the total number of boards members. Over the past decade, there has been a noticeable global trend towards increasing the representation of women on boards in several countries worldwide, driven by the argument that companies led by female executives tend to make better decisions for shareholders (Huang & Kisgen 2013).

The presence of females on boards could enhance corporate governance mechanisms, such as transparency and accountability, because of their contribution to mitigating fraud (Capezio & Mavisakalyan 2016). Many studies have found that companies with more women on their boards tend to have higher financial returns, better employee satisfaction, and improved corporate social responsibility. Several theoretical frameworks, including agency theory and social identity theory, offer valuable insights into the relationship between board gender diversity and company financial performance. Many findings in the theoretical literature suggest that according to agency theory and resource dependence theory, greater board diversity enhances performance. According to agency theory, have found that gender-diverse boards have superior monitoring skills and increase manager accountability. Moreover, women directors are more sensitive to ethical issues, behave less opportunistically and bring fresh perspectives on complex issues (Cumming et al. 2015). Overall, the agency theory suggests that gender diversity enhances board effectiveness and improves the financial performance of companies. Erhardt et al. (2003) carried out an investigation aimed at finding the linkage between board gender diversity and financial performance of firms in the United States of America using correlation and regression analysis. The results show that board gender diversity has a positive linkage with firm financial performance.

One of the hypotheses being tested is also Gender Diversity, specifically the presence of "Women Directors" in the Board of Directors and Top Management/CEO positions, and relationship between women directors and company performance. Despite an increased diversity in board of directors' room, women remain underrepresented, and progress is slow. The topics of gender diversity, women in board positions, and top management positions (TMP) are now receiving more attention than ever before and are gaining momentum in many European countries, including Kosovo. Although European countries have been leaders in promoting women's rights in the workplace, other countries, including Kosovo, have followed suit by enacting mandatory laws and recommendations. In December 2022, the EU adopted a new directive on gender balance on corporate boards of listed companies (Directive (EU) 2022/2381). The directive sets targets of 40% representation of the underrepresented sex among non-executive directors or 33% among all board members for listed companies by 2026.

1.1 Aims of the study

This study aims to contribute to the ongoing debate about the importance of corporate governance in private companies in Kosovo. It also seeks to enhance the commitment of the private sector to corporate governance reforms and the development of a corporate governance culture, as well as fill academic gaps in research and encourage further academic research.

The main research question of this study was to understand if private companies in Kosovo (in particular, medium and large corporations) have Boards of Directors, and if so, what are their characteristics and their impact on the Performance of Private Companies in Kosovo?

The following hypothesis have been tested:

> *H1: The presence of the Board of Directors has a positive impact on company performance.*
>
> *H2: There is a positive relationship between the size of the board of directors and the performance of private companies in Kosovo.*
>
> *H3: There is a positive relationship between the level of independence of board and company performance in Kosovo private companies.*
>
> *H4: Gender diversity has a positive effect on the financial performance of private companies in Kosovo.*

2 DATA AND METHODOLOGICAL APPROACH

2.1 The data source and sample

The data used in this research study have been collected through questionnaire survey involving 61 medium and large companies in Kosovo, from the 130 companies selected. The primary tool used to collect data was a questionnaire designed to identify the corporate governance structures and practices of companies. The questionnaire was administered to the Chief Executive Officer (CEO) or other top-ranking executives who possess in-depth knowledge of the business operations. Corporate governance is evaluated using five variables: board presence, board size, board independence, and gender diversity. Secondary data concerning financial performance indicators, such as Return on Equity (ROE), sales, and profit, were predominantly sourced from the questionnaires, alongside primary data, publications, and audit reports (Ministria e Financave, rks-gov.net) to measure both corporate governance and company performance variables.

The list of companies has been compiled is based on the active businesses registered with the Tax Administration of Kosovo (TAK) and KBRA1. According to the Tax Administration of Kosovo (TAK), the total number of active businesses or taxpayers in Kosovo stands at 40 thousand2 (see Table 1). The study primarily focuses on companies meeting specific criteria: those with over 250 employees, as well as medium-sized companies with over 50 employees. In this study, I have opted to use the classification provided by Kosovo Law No. L-220 on Foreign Investment, as applying the EU definition would classify most of the large companies in our dataset as small due to the annual turnover criterion.

The sample includes companies selected from each of the seven regions of Kosovo. The study examined the presence and structure of the board of directors and assessed how these mechanisms influence company financial performance. The selected companies represent a diverse cross-section of the private business landscape in Kosovo, encompassing various types of enterprises, including individual businesses, Limited Liabilities Companies (L.L.C.), Joint Stock Companies (J.S.C.), and others. Furthermore, these belong to diverse industries, such as trade, manufacturing, information technology, financial services, and other service sectors.

Table 1: Number of active companies in Kosovo split by number of employees.

Number of Companies based on number of employees (active taxpayers)	No. of employees	No. of businesses
Micro	1-10	36,186
Small	11-50	3,483
Medium	51-250	538
Large/Corporate	>250	92
	TOTAL	40,299

Source: Tax Administration of Kosovo, number of active taxpayers in 2021

[1] *Kosovo Business Registration Agency, https://arbk.rks-gov.net/*
[2] *The total number of companies encompasses public companies, socially owned enterprises, NGOs, embassies, and similar entities, which are beyond the scope of this research.*

As observed in the table above, the majority of businesses in Kosovo fall into the category of micro and small enterprises, comprising 98.5% of all businesses. These enterprises are the backbone of the country's economy, contributing significantly to both employment and GDP. Conversely, the number of companies categorized as medium and large is relatively limited, respectively only 1.5% of the total business in Kosovo. Specifically, there are only 92 companies classified as “large/corporate”, while 538 fall under the “medium” category. It is important to note that micro and small companies are beyond the scope of this study since it is not expected that small companies would have structured governance structures. This assumption is supported in previous research too. Most SMEs, however, are closely held and owner-managed, with owners having direct and detailed insights into internal processes of the firm (Cowling, 2003).

The survey was conducted electronically, with data collection carried out solely by the author of this study for the specific purpose of this research.

2.2 Methodological Approach

The research study employs a quantitative methodology. The quantitative approach consists of firm-level survey with large and medium-sized companies. This section empirically examines the relationship between the presence and various aspects of the board of directors and company performance within the private sector in Kosovo, focusing on medium and corporate businesses. More precisely, the company’ performance was assessed through regression analyses, examining the significance of different aspects of the Board of Directors in influencing company performance.

The model is estimated using Ordinary Least Squares (OLS) regression technique assuming a relationship between the regressors and the dependent variable. Ordinary Least Squares regression (OLS) is a common technique for estimating coefficients in linear regression models, which describe the relationship between one or more independent quantitative variables and a dependent variable, whether it is a simple or multiple linear regression. The advantages of using the OLS technique include its suitability for estimating models with a small number of observations, as in the case in our research with a sample size of 61. However, it is important to note that in our research study, which focuses on large corporations, our sample size represents a substantial portion of the large companies in Kosovo. Specifically, this survey covers 32 out of 92 large companies, accounting for approximately 34.7% of the large/corporate businesses within the population.

3 RESULTS AND DISCUSSION

3.1 Empirical findings – descriptive data

Out of the 61 companies surveyed, 47.5% fall into the category of medium-sized companies, defined as having a staff size ranging from 51-249 employees. Conversely, 32 companies, comprising 52.5% of the total, are classified as large or corporate, with over 250 employees. As depicted in Table 1, “Number of active companies in Kosovo split by number of employees”, the total number of active companies in Kosovo classified as large, specifically those with a staff size exceeding 250 employees stands at just ninety-two, a relatively small number. In light of this, data for the research study were collected from thirty-two of these Large/Corporate companies, representing approximately 34.7% of the total large companies in Kosovo.

Table 2: Companies split by number of employees (from the sample)

# of employees	# of companies	%
51-249	29	47.5
250-450	18	29.5
Over 450	14	23
Total	61	100

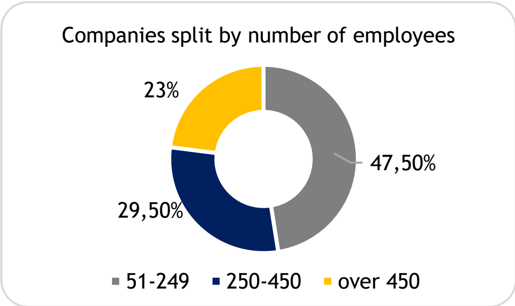

Figure 1: Companies split by number of employees

Table 3: Gender of CEOs in companies

Gender CEO	Number	%
Male	56	91.8
Female	5	8.2
Total	61	100

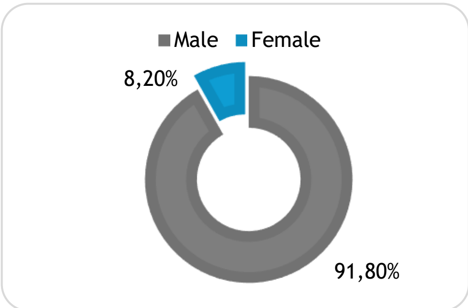

Figure 2: Gender of CEOs in companies.

As evident from Table 3"Gender of CEOs in Companies", the number of female CEOs remains relatively low, with only 8.2 % of the CEOs being women among the 61 companies surveyed. In other words, only 5 companies are led by women CEOs. While there has been some slight improvement in recent years, the presence of women in leadership position remains underrepresented.

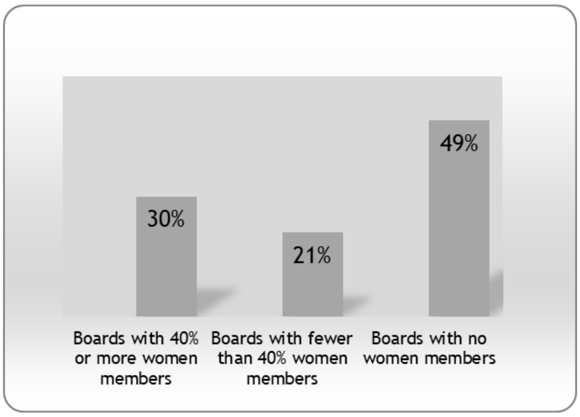

Figure 3: Breakdown of companies by % of women on boards.

With regard to women on boards, almost half of the companies have no women on their boards. The data shows that only 30% of boards have 40% or more women, indicating some progress toward gender balance. However, 21% of boards have less than 40% female participation, showing that many still fall short. Worryingly, 49% of boards have no women at all, revealing a significant gap in gender representation and the need for stronger inclusion efforts.

Another aspect researched was succession planning. Out of 61 companies surveyed, 52.5 % (or 32 companies) have stated that they lack a clear successor within the company, while 47.5% have declared that they do have a clear successor.

Table **Napaka! V dokumentu ni besedila z navedenim slogom.**: Description of variables

Variable	**Description**
Board Presence	Value 1 if company has board; otherwise, 0
Board Independence	Value 1 if company board is independent; otherwise, 0
Gender CEO	Value 1 if company CEO is male; 0 if female
Percentage of women in board	Percentage of women in board
Board size	Number of board members
ROE	Value of ROE (2014-2020)
Sales	Value of sales (2014-2020)
Profit	Value of profit (2014-2020)

Table 5: Summary statistics

Variable	Proportion		Mean	Min	Max
	0	1			
Board Presence	0.29	0.71	0.70	0	1
Board Independence	0.42	0.58	0.58	0	1
Gender CEO	0.08	0.92	0.92	0	1
Percentage of women in board	-	-	17.2	0	60
Board size	-	-	5.4	3	10
ROE	-	-	13.54	2.96	35.0
Sales	-	-	31,276,809.5	700,000.0	317,000,000.0
Profit	-	-	3,400,770.8	-2,300,000.0	42,000,000.0

3.2 Empirical evidence - regression results

This section empirically examines the presence and various aspects of the board of directors in relation to company performance within the private sector in Kosovo. Being aware of the data limitations, our results need to be interpreted with caution and no causal relationship will be inferred from our estimates. The regression results will be rather used to show the relationship between our response variable and the key explanatory variables.

Table 6: Baseline regression: OLS estimation of company performance and board of directors

VARIABLES	Log (sales)	Log (ROE)	Log (profit)	Log (sales)	Log (sales)	Log (sales)	Log (sales)
	OLS	OLS	OLS	OLS	OLS	OLS	OLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Board presence	1.311*** [0.405]	0.337* [0.190]	1.440*** [0.437]				1.127* [0.569]
Board size				0.135 [0.158]			0.11 [0.159]
Board independence					0.426 [0.398]		0.599 [0.464]
Percentage of women in board						-0.0002 [0.010]	0.0002 [0.011]
Observations	49	55	50	43	49	45	43
R-squared	0.182	0.06	0.185	0.018	0.024	0.001	0.292

Note: Robust standard errors are reported in parenthesis.
**** p<0.01, ** p<0.05, * p<0.1 denotes significance at 1%, 5% and 10% level.*

3.3 Discussion

Hypothesis 1: The presence of the Board of Directors has a positive impact on company performance.

Results discussion: As anticipated, the coefficient's sign is positive and highly significant, indicating that companies with a board of directors exhibit a higher level of sales[3]. More specifically, the presence of a board of directors is associated with 270% increase in sales as opposed to those companies that do not have a board of directors (see Table 6).[4] While the value of R-squared is relatively low, it can be considered reasonable, given the small sample size and the limited number of explanatory variables. In this specification, the R-squared value is 0.182, implying that approximately 18 percent of the variation in company performance can be explained by the model.

$Ln(sales)_i = \alpha + \beta_1 Board\_dummy_i + \varepsilon i$ ....(1)

Another proxy assessing a company's performance is the rate of return on equity (ROE) and the actual profit. We will use these measures as a robustness check in the following specifications (2 and 3). The coefficients for both ROE and the level of profit are positive and significant, albeit with weaker explanatory power. However, both ROE and Profit could be considered less reliable considering the high level of informality in Kosovo. As per report published from the Academy of Sciences and Arts of Kosovo "Analyses of Shadow economy in Kosovo" (2019), the percentage of the real profit reported in Kosovo for 2018 is 35.8%. Even though this enterprise survey covers all enterprises, including micro and SME businesses which were out of our scope, the overall level of the shadow economy in Kosovo is 39.5% (ASHAK, 2019). According to 2022 European Commission report, the widespread informal economy, continue to hinder the private sector (Commission, 2022). Therefore, other than ROE, we have used Sales as a more reliable proxy to measure the performance of the company. That said, the dependent variable for our full specification will be considered actual company's sales.

$Ln(ROE)_i = \alpha + \beta_1 Board\_dummy_i + \varepsilon i$ ....(2)

$Ln(profit)_i = \alpha + \beta_1 Board\_dummy_i + \varepsilon i$ ....(3)

The second hypothesis tested is the size of the board of directors and the performance of the private companies in Kosovo.

Hypothesis 2: There is a positive relationship between the size of the board of directors and the performance of the private companies in Kosovo.

In the fourth specification (4), we have tested the board size in companies. Our initial assumption posited that the board size would have a positive influence on the board's performance and, subsequently, company performance. However, the results from the regression analysis indicate that the coefficient of the board size variable is marginally positive but not statistically significant.

$Ln(sales)i = a + \beta 1 Board\_sizei + \varepsilon i$ ....(4)

[3] *Significance of the regression coefficients is measured by the level of p-value in a particular regression. A p-value less than 0.09 (typically ≤ 0.09) is considered statistically significant. It indicates strong evidence against the null hypothesis, as there is less than a 9% probability the null is correct (and the results are random). Therefore, in cases where the p-value is less than 0.09, the null hypothesis is rejected. The lower the p-value the higher is the significance. In this regression (column 1), the p-value was ≤ 0.09 which indicates that the null hypothesis - which in this case suggests that there is no relationship between the presence of the boards and firms' performance as measured by total annual sales - is rejected.*

[4] *In a log-linear regression model where the dependent variable (Y) is transformed into its natural logarithm (ln(Y)), interpreting the coefficient of a dummy variable (D) requires careful attention to its multiplicative impact on Y. The interpretation of the coefficient β, is that it is the partial derivative of ln(Y) with respect to X. So, a small change in X (up or down), will lead to a multiplicative change of exp(b) in Y, other things held equal. That is, Y will be scaled by exp(β). In order to interpret correctly the dummy coefficient, if D switches from 0 to 1, the % impact of a dummy on Y is 100[exp(β) - 1].*

Results discussion: The outcomes of our hypothesis align with the findings from Chiang (2005) and Fama & Jensen (1983b); however, they contradict the findings of authors (Arber H. Hoti & Dermaku 2018). Agency theory, from an economic perspective, determines that fewer board members improve monitoring, control, and corporate finance performance (Jensen, 1993). Based on numerous studies, small boards spend less time in discussions and make faster decisions, and the board of directors can dedicate more time to tackling issues in greater detail. From the agency theory's perspective, large boards can make coordination and decision-making more complex and difficult and reduce efficiency and performance, because there is an increased difficulty in obtaining agreement regarding decisions. So, the small boards are better (Chiang, 2005; Fama & Jensen, 1983b). Hence, the evidence for the board size and impact on the company performance is mixed.

It is worth noting that our findings show the size of the board of directors' ranges from 3 to 10 members. Out of the 43 companies with a board of directors, 31 of them, constituting 72%, reported having relatively small boards with up to 5 members, while 12 companies indicated having more than 5 board members, ranging from 6 to 10 members. This suggests that the maximum number of board members in a private company in Kosovo is ten, while the minimum is three, with an average of 5.4 members.

When comparing this to EU countries, data from 2020 by Spence Stuart[5] reveals that the average board size in 10 largest EU economies was 8.9 directors. The study found that the average board size ranged from 7.2 directors in Italy to 10.8 directors in Germany. However, it is worth noting that this data is reflective of developed economies within the EU and may not be representative of board size in less developed countries, such as Kosovo.

Hypothesis 3: A positive relationship exists between the level of independence of board and company performance in Kosovo private companies.

The findings indicate that while the coefficient for independent directors is positive, it does not reach statistical significance. This outcome can be explained by the prevalent presence of family members in Kosovo companies and the cultural context. Family bonds hold significant value in Kosovo culture, with many families maintaining strong traditions of collaboration and support not only in business activities but also in various challenges they may face. Kosovo is a society where traditional values are highly valued. As described above, due to these cultural traditions and norms, family members are more likely to trust and be loyal to one another than to non-family employees. As a result, the presence and impact independent directors are positive but do not reach statistical significance, as observed in more developed countries. According to survey results performed by Riinvest[6], Corporate Governance in Family-Owned Businesses, it is shown that the composition of the board of directors is dominated by family members.

$$Ln(sales)i = a+\beta 1Board\_ind\_dummyi + \varepsilon i \quad \ldots\ldots\ldots\ldots (5)$$

Hypothesis 4: "Gender Diversity has a positive effect on financial performance of private companies in Kosovo".

The impact of women directors on company performance appears to be quite limited, with the regression coefficient indicating statistically insignificant relationship between Gender Diversity/Women Directors and company performance (specification 6).

$$Ln(sales)i = a+\beta 1Perc\_womeni + \quad \ldots\ldots\ldots\ldots (6)$$

[5] *[Board Services | Spencer Stuart](), accessed April 10th, 2023.*
[6] *Riinvest, Corporate Governance in Family-Owned Businesses, 2015*

However, the available evidence is insufficient to establish that the presence of women has a positive impact on the financial performance private companies in Kosovo. These observations may be attributed to the limited representation of women in boardrooms of Kosovo's private companies. As illustrated in Figure 3, only 30 % of companies have a board representation of 40% or more women, while a significant number of companies do not have a single women member in their boardrooms, while overall representation of women on boards is very low with only 17 % of total board seats. It is important to note that the sample size of companies with women on boards is relatively small, and with a small sample size, the results may not be highly reliable. Despite extensive efforts to increase the presence of women on corporate boards, men continue to dominate these boards.

In line with this research, Pletzer et al. (2015) also found that the average correlation between the percentage of women on the board and firm performance was small and not statistically significant. Demographic diversity has a positive impact on performance. However, when diversity is enforced by regulation (i.e., statutory diversity) there is no such effect7. This resonates with the situation in Kosovo, where diversity is primarily seen as a regulatory requirement through gender quotas rather than a genuine involvement that adds strategic and value-driven contributions to companies.

The limited representation of women on corporate boards in Kosovo makes it challenging to determine the relationship between women on boards and company performance.

In summary, all individual independent variables are incorporated in the full specification (7) which confirms the results elaborated for each hypothesis above. However, the full specification enhances the model's explanatory power, as indicated by the increased magnitude of R-squared, which is 0.29. This suggests that our model in its full specification provides a more robust explanation of the variations in company performance.

$$Ln(sales)_i = \alpha + \beta_1 Board\_dummy_i + \beta_2 Board_{\text{–sizei}} + \beta_3 Board_{\text{–ind\_dummyi}} + \beta_5 Perc_{\text{–womeni}} + \varepsilon (7)$$

3.4 Concluding remarks and future research

The concept of Corporate Governance is relatively new in Kosovo. Kosovo, as a young country that declared its independence in 2008, has a relatively short history of corporate governance. The lack of sufficient empirical studies in the field of Corporate Governance, particularly within the private sector, and the existing gap in the literature were the primary motivations behind this research.

The research findings show that 70% of the companies in the study have a board of directors. The results indicate that the presence of a board, as a proxy for adopting corporate governance practices, has a positive and significant impact on company performance. However, these boards often lack independence, being largely dominated by family members. Furthermore, gender diversity is limited, with women occupying only 17% of the total board seats. The findings suggest positive developments regarding the presence of the board of directors in large private companies in Kosovo; however, there are still challenges facing corporate governance in general. Overall, there is a high prevalence of family-related members on the boards. Additionally, succession planning is identified as another key area for improvement.

[7] *Source: Deloitte, Neynrode Business University, 2016). Good Governance driving Corporate Performance? A meta- analysis of academic research & invitation to engage in the dialogue.*

The presence of the board of directors has a positive and significant influence on company performance.

Despite satisfactory progress in terms of the presence of the board of directors in large companies in Kosovo, the quality of boards in Kosovo does not meet international standards. There is a lack of independence, and they are heavily influenced by family members related to the company, with family-related member remaining highly prevalent (an average 2.7 members).

58% of the researched companies has declared that they have independent board members in their board, while 42% of the companies has no independent member. The average number of independent board members is 1.4.

The legal framework on corporate governance in private companies remains weak in Kosovo. The law is mandatory for Joint Stock Companies (J.S.C.), while is optional for other categories (e.g., Limited Liability Companies, which represent the majority of medium/corporate companies in Kosovo). The recently published 2022 Code of Corporate Governance can serve as a guide, but it is not legal act, and its implementation needs close monitoring. Additionally, the research revealed inconsistencies among different laws and regulations. This may also indicate a need for lawmakers to leverage the expertise of corporate governance professionals more effectively during the process of designing and passing of respective laws and regulations.

Board size: The average board size is relatively small, at 5.4 members (with minimum of 3 and a maximum of 10), which is significantly lower when compared to the European Union and the United States.

Board composition: Research results also reveal that the composition of the board of directors is predominantly comprised of family members. Empirical evidence shows that 44% of the companies have declared the presence of family-related members on their boards.

Gender diversity: Nearly half (49%) of the companies have no women on their boards. Only 30% of these companies have boards where women hold at least 40% of the seats. Overall, women occupy just 17% of total board positions, indicating low female representation at the board level.

Women CEOs: Only 8.2% of researched companies in Kosovo are led by women CEOs, while 86% of companies reported that they have never had a woman as a CEO. This statistic is quite similar to those in other more developed countries. Even when compared to Fortune 500 companies, where, for the first time in history, women CEOs now run more than 10% of companies, the situation in Kosovo is not that different. However, it is worth noting that the involvement of women on boards or in CEO position in Kosovo often seems more geared towards meeting gender quotas rather than bringing real value, such as active participation in decision-making processes, contribution, and achieving successes in these companies.

Succession planning: More than half of the companies, specifically 52%, do not have a formal successor in place. The absence of a clear line of authority often results in business decline following the departure or retirement of a successful CEO. As indicated by empirical findings, almost half of the companies lack proper succession planning.

In conclusion, there are opportunities and positive indications that demonstrate a commitment to improving corporate governance in Kosovo, not only from the government but also from the private sector and various stakeholders. Corporate governance is poised to continue developing and advancing in Kosovo. The board of directors plays a critical role in shaping the performance of companies in Kosovo. Despite challenges in terms in governance practices within the country, there are active initiatives aimed at enhancing the quality of boards and ensuring their effectiveness in driving the long-term success of companies. Furthermore, although the presence of women directors in Kosovo remains relatively low, concerted efforts are being made to enhance gender diversity within the boardroom.

3.5 Limitations of the research study

This research study has several limitations that need to be acknowledged. While the surveyed companies provide valuable insights into medium and large enterprises in Kosovo, it is essential to recognize that the total number of large/corporate enterprises (population) in Kosovo is relatively small. The study may not fully represent the broader business population in the country, as the majority (98.5%) of businesses in Kosovo are classified as Micro and Small enterprises with fewer than 50 employees.

Secondly, this research specifically focuses on the sixth OECD principle of Corporate Governance (2015) "Structure and Functioning of the Board of Directors", and it does not delve into other OECD principles. The research investigates the relationship between various characteristics of the Board of Directors (presence, size, independence, and diversity) and company performance for a period of 2014-2020 and is primarily focused on Kosovo, which means that the findings cannot be directly compared with other countries in the region, particularly concerning the private sector.

3.6 Recommendations for future research

There are various areas and approaches in which the research can be expanded. Given that the research has been conducted on corporate governance variables with a focus on Kosovo companies, it would be beneficial in the future to gather more data from other regions, especially the private sector in Western Balkans counties. Additionally, the newly introduced Corporate Governance code in 2022 could be an intriguing subject for practical implementation analysis. Therefore, a broader perspective is proposed for future research:

Inclusion of large/corporate private companies from other regional countries8. The research could potentially benefit from an investigation into which countries adhere to better corporate governance principles.

Repetition of the survey in few years. This would enable researchers to identify any changes during this period, particularly in light of the recent "Code of Corporate Governance" for private enterprises.

Reassessment of gender quota implementation and legal framework regarding boards of director is another step in future research. Considering that the legal framework related to Corporate Governance, specifically regarding the board of directors and the gender quota, has recently come into effect, it is advisable to extend the research period to include studies conducted after a specific number of years. This approach would enable researchers to track progress over these years

[8] *Although the results offer an indication of the situation in Kosovo relative to other countries in the region based on the EBRD's 2017 country assessments, they are not fully comparable for two reasons. First, the scope of sectors differs: this research focuses exclusively on the private sector, whereas the EBRD assessment primarily covers the public sector and includes only 10 companies. Second, the assessed characteristics vary; for instance, aspects such as the separation of CEO and board chair roles were outside the scope of this research. Moreover, this research includes a broader sample of 61 companies, providing a more comprehensive overview of the private sector in Kosovo.*

References

Adebayo, S. O., Olusola, A. G., & Abiodun, O. F. (2013). Relationship between corporate governance and organizational performance: Nigerian listed organizations experience. International Journal of Business and Management Invention, 2(9), 1–6.
Aebi, V., Sabato, G., & Schmid, M. (2012). Risk management, corporate governance, and banking performance in the financial crisis. Journal of Banking & Finance, 36(12), 3213–3226. https://doi.org/10.1016/j.jbankfin.2011.10.020
Arber, H., & Dermaku, A. (2018). Corporate governance in the banking industry of Kosovo: Does board size and board independence matter? Journal of Finance & Banking Studies, 7(3), 20–34.
Arora, A. (2015). Literature review assessing the relationship between corporate governance and firm performance. In Compendium of research papers of the National Conference on Managing Tomorrow: Issues and Challenges. DY Patil Institute of Management Studies.
Bebchuk, L. A., & Weisbach, M. S. (2010). The state of corporate governance research. The Review of Financial Studies, 23(3), 939–961. https://doi.org/10.1093/rfs/hhp121
Belhaj, S., & Mateu, C. (2016). Corporate governance impact on bank performance: Evidence from Europe. Corporate Ownership & Control, 13(4-4), 583–597. https://ssrn.com/abstract=2809063
Bennedsen, M., Kongsted, H. C., & Nielsen, K. M. (2008). The causal effect of board size on the performance of small and medium-sized firms. Journal of Banking and Finance, 32, 1098–1109.
Boone, A., Field, L., Karpoff, J. M., & Raheja, C. G. (2007). The determinants of corporate board size and composition: An empirical analysis. Journal of Financial Economics, 85(1), 66–101. https://doi.org/10.1016/j.jfineco.2006.05.004
Capezio, A., & Mavisakalyan, A. (2016). Women in the boardroom and fraud: Evidence from Australia. Australian Journal of Management, 41(4), 719–734. https://doi.org/10.1177/0312896215579463
Cheng, S. (2008). Board size and the variability of corporate performance. Journal of Financial Economics, 87(1), 157–176. https://doi.org/10.1016/j.jfineco.2006.10.006
Cowling, M. (2003). Productivity and corporate governance in smaller firms. Small Business Economics, 20, 335–344.
Cumming, D., Leung, T. Y., & Rui, O. (2015). Gender diversity and securities fraud. Academy of Management Journal, 58(5), 1572–1593. https://doi.org/10.5465/amj.2013.0750
Chiang, H. (2005). An empirical study of corporate governance and corporate performance. Journal of the American Academy of Business, Cambridge, 6(1), 122–140.
Deloitte. (2017). Seeing is believing: 2017 board diversity survey.
Deloitte. (2020, March 26). Stepping in: The board's role in the COVID-19 crisis.
Duchin, R., Matsusaka, J. G., & Ozbas, O. (2010). When are outside directors effective? Journal of Financial Economics, 96(2), 195–214. https://doi.org/10.1016/j.jfineco.2009.12.004
Erhardt, N. L., Werbel, J. D., & Shrader, C. B. (2003). Board of director diversity and firm financial performance. Corporate Governance: An International Review, 11(2), 102–111. https://doi.org/10.1111/1467-8683.00011

European Commission. (2022, October). Key findings of the 2022 report on Kosovo. https://commission.europa.eu
Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. Journal of Law and Economics, 26(2), 301–325.
Forbes, D. P., & Milliken, F. J. (1999). Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups. Academy of Management Review, 24, 489–505. https://doi.org/10.5465/amr.1999.2202133
Fuzi, S. F. S., Halim, S. A. A., & Julizaerma, M. K. (2016). Board independence and corporate performance. Procedia Economics and Finance, 37, 460–465. https://doi.org/10.1016/S2212-5671(16)30152-6
Huang, J., & Kisgen, D. J. (2013). Gender and corporate finance: Are male executives overconfident relative to female executives? Journal of Financial Economics, 108, 822–839.
Tilcsik, A., & Almandoz, J. (2016). When having too many experts on the board backfires. Academy of Management Journal, 59(4), 1124–1149.
Johnson, J. L., Daily, C. M., & Ellstrand, A. E. (1996). Boards of directors: A review and research agenda. Journal of Management, 22(3), 409–438. https://doi.org/10.1177/014920639602200303
Işık, Ö., & İnce, A. R. (2016). Board size, board composition and performance: An investigation on Turkish banks. International Business Research, 9(2), 74–84. (PDF) Board Size, Board Composition and Performance: An Investigation on Turkish Banks
McKinsey & Company (2018). Delivering through diversity. Retrieved from https://www.mckinsey.com/capabilities/people-and-organizational-performance/our-insights/delivering-through-diversity
Nicholson, G. J., & Kiel, G. C. (2007). Can directors impact performance? A case-based test of three theories of corporate governance. Corporate Governance: An International Review, 15(4), 585–608. https://doi.org/10.1111/j.1467-8683.2007.00590.x
OECD. (2023). G20/OECD principles of corporate governance. Retrieved from G20/OECD Principles of Corporate Governance 2023 | OECD
Rosenstein, S., & Wyatt, J. G. (1990). Outside directors, board independence and shareholders' wealth. Journal of Financial Economics, 26(2), 175–191.
Riinvest. (2015). Corporate governance in family-owned businesses in Kosovo. Prishtina, Kosovo.
Pfeffer, J. (1972). Size and composition of corporate boards of directors: The organization and its environment. Administrative Science Quarterly, 17(2), 218–228.
Pletzer, N., Kedzior, R., & Voelpel, S. C. (2015). Does gender matter? Female representation on corporate boards and firm financial performance—A meta-analysis. PLOS ONE, 10(6). https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0130005
Silva, A. L. C. d., & Leal, R. P. C. (2005). Corporate governance index, firm valuation, and performance in Brazil. Revista Brasileira de Finanças, 3(1), 1–18.
Yermack, D. (1996). Higher market valuation for firms with a small board of directors. Journal of Financial Economics, 40, 185–211.