Investigating Corporate Governance Impact on Financial Risk Management: Insights from the Albanian Banking Industry

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INTRODUCTION & AIM

The 2008 financial crisis highlighted the critical role of corporate governance in mitigating excessive risk-taking in banks. In Albania—a transitional economy where banks dominate the financial system—governance practices like board independence, ownership concentration, and executive incentives may directly impact risk exposure.

Aim:

To examine how corporate governance mechanisms influence credit risk management in Albania's banking sector over 2012–2022.

METHOD

•**Sample:** 12 commercial banks in Albania (2012–2022)
•**Dependent Variable:**
•**Credit Risk** (NPLs / Total Loans)
•**Independent Variables:**
•**Board Independence (% of independent directors)**
•**Ownership Concentration (% held by largest shareholder)**
•**Executive Compensation (bonus/total comp.)**
•**Control Variables:**
•Bank Size (log of total assets)
•Capital Adequacy (regulatory capital / RWA)
•**Software & Technique:**
Panel regression (Fixed Effects model, EViews)

RESULTS & DISCUSSION

Variable	Coef.	p-value
Board Independ.	-0.112	0.020
Ownership Conc.	0.217	0.009
Executive Comp.	-0.089	0.034
Bank Size	-0.203	0.001
Capital Adequacy	-0.154	0.003

Model Stats:
•$R^2 = 0.72$
•F-stat = 14.56 ($p < 0.0001$)
•Durbin-Watson = 2.02
Interpretation:
•**Board independence & performance-based compensation** reduce risk.
•**Concentrated ownership** is linked to higher risk—possibly due to weaker oversight.
•Larger and better-capitalized banks are less risky.

CONCLUSION

Corporate governance matters for risk management in Albanian banks
Board independence and executive incentives lower risk
Ownership concentration may increase risk
Larger banks and those with strong capital buffers are more stable

FUTURE WORK / REFERENCES

•Explore non-credit risks (e.g., liquidity, operational)
•Analyze impact of governance reforms post-2022
•Extend study to other Western Balkan countries