QUALITY OF CORPORATE GOVERNANCE: THE CASE OF KOSOVO ENERGY CORPORATION (KEK J.S.C.)

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Abstract

This research is based on analysis and evaluation of the quality of corporate governance in public enterprises in Kosovo, with particular emphasis on the case in Kosovo Energy Corporation (KEK JSC) and compared with international standards such as the principles of the OECD (2005) and EU standards.

The objective of the research is to determine the basic characteristics of corporate governance in KEK JSC and provide an empirical basis for improving corporate governance code and positive developments. Also another goal of this paper is to increase the confidence in corporate reporting and good corporate governance by improving information to relevant stakeholders on the achievements and the quality of corporate governance in KEK and central public enterprises (PE), and make recommendations to the various policies of the government, and other interested parties for further advancement of the situation in this field.

Basic hypothesis is that the quality of corporate governance in the KEK is poor, with a significant increase due to positive developments in the capital markets and institutional development.

In this research will include KEK JSC, and comparative analysis with other central enterprises, the shares of which are owned 100% of the Kosovo government. Under corporate governance means management and means the system of management and supervision of joint stock companies.

It includes a set of relationships between leadership and management of joint stock companies, its board of directors, shareholders, and other interest groups that affect joint stock companies.

Methodology: This research will be well prepared with modern methodologies as: Research methods, survey questionnaire, a complete checklist for analyzing websites, descriptive statistics, qualitative and quantitative analysis of data.

The area of research includes: basic information on public companies (KEK), the board of management, control environment, publication and disclosure, shareholder rights protection, companies' websites. The central part of the study is devoted to the analysis of the results of the survey conducted among members of the leadership and members of the board of directors of public enterprises especially KEK JSC.

Here are handled stakeholders and relations in the corporate governance system, including the board of directors, shareholders, the rights of other interest groups, transparency and control.

At the end the conclusions and recommendations are provided. Based on these results, it can identify a number of key challenges facing corporate governance developments in Kosovo,

in which corporate governance code and additional instruments should have influence in future. These are: the definition and promotion of best practices, protecting the interests of shareholders,

Stronger role of boards of directors, greater transparency of remuneration for members of the management and their benefits are linked to business results, strengthen internal control systems and to encourage appropriate organizational culture.

1. Introduction

The aim of the research is to validate and analyze the quality and the problems of corporate governance in public enterprises (PE) in the Republic of Kosovo, especially the Kosovo Energy Corporation (KEK J.S.C.), and that as a matter of much importance for economic development. Main purpose is to increase confidence in corporate reporting and good corporate governance and to provide recommendations for further positive developments. For this reason the basic goal is to validate the quality of corporate governance, to define the elements of corporate governance strategy in the Republic of Kosovo. The objective of this paperwork is to have a research which can be used as an important input for a proper strategy to good corporate governance and how to improve corporate governance performance in Kosovo in the light of the guidelines of OECD (2005), and EU standards, and to inform stakeholders on the principles and modern practices related to corporate governance.

Corporate governance in the PE is a major challenge in many economies to its complex nature. In some developed countries, state-owned companies still represent a significant portion of GDP, employment, and capital market. These are widespread in industry and infrastructure services, such as transport, energy and telecommunications, and their performance is of great importance to other parts of the business. The developing countries also have a significant number of state-owned companies, which in some cases dominate the economy.

Corporate governance in the PE is critical to ensure their positive contribution to economic efficiency and overall competitiveness of a country. Experience has also shown that good governance of state-owned enterprises is an important prerequisite for effective privatization, as this will make these companies more attractive to prospective buyers and increase their value in the market. Challenges of public companies are more difficult than those of private companies. If private companies have the main goal of profit maximization, public sector companies should pursue trade objectives business. Agency problem, which plays an important role in the theory of governance, is much more visible and tangible in private companies in comparison with those of the public sector. Based on the OECD principles of corporate governance, public companies should focus on policies that ensure good governance of these companies.

Basic hypothesis is that the quality of corporate governance in the NP in Kosovo, especially in KEK is insufficient, but with a gradual increase due to positive developments in the capital markets and institutional development. The research of this paper on corporate governance will help companies improve the implementation of corporate governance standards in order for them to consider introducing them to the list of national stock market and the exchange of their shares and stock exchanges and regulators help to increase their knowledge of corporate governance.

The importance of work on this study will serve as a great help in the completion and enhancement of Albanian literature in this field in Kosovo, and to promote the development of this discipline, on the other hand science will be able to use the results of our study to compare the requirements of the OECD guidelines for corporate governance of state-owned enterprises (2005) and other principles guidelines drawn up by various international organizations, and recommendations in this area.

Reasoning and another importance of the study that will benefit: the science of economics, public companies such as: the board of directors, management, joint stock companies, consultants and analysts in Kosovo companies, relevant institutions and all those who faced every day with the problems of corporate governance in their organizations, etc.

Methodology: This research will be well versed with modern methodologies such as: Scientific research methods, survey questionnaire, and checklist for analyzing web pages, descriptive statistics, and analysis of qualitative and quantitative data.

Research areas include: basic information on public companies (KEK), the board of management, control environment, publication and disclosure, protection of shareholder rights, the websites of the companies.

The central part of the study is devoted to the analysis of the results of the survey conducted among members of management, members of the board of directors and shareholders PE especially KEK J.S.C. The research, on which this article is based, combined survey and interview to form the basis of empirical data. In this way, three groups of stakeholders in corporate governance were identified: shareholders, members of the management and members of the BD

1.1. Corporate Governance in Public Enterprises (PE)

Public enterprises (PE) play an important role in most countries of the world, often have a dominant role in the utilities, telecommunications, transport, etc. In many OECD countries, public enterprises still play an important role in production and employment. Based on the OECD Guidelines, the term "public enterprises" refer to enterprises where the state has a significant control, through full ownership, majority or minority ownership. In most developing countries, these enterprises are dominant sector of the economy in terms of production and employment. Therefore, the operation of public enterprises can have great influence on economic efficiency and competitiveness of the country as a whole. PE are often monopolies or have elements of natural monopoly and are not subject of two main disciplinary mechanisms of the market system: bankruptcy and absorption mechanism. PE are often subject of government intervention which are excessive and politically motivated. Therefore, it is important to develop appropriate mechanisms, in order to enable management companies as similar to private companies in a competitive environment.

Considering the above facts, as well as the OECD principles publications, it has become known that the principles of corporate governance are equally (if not more) applicable to an efficient operation PE. Any improvement in the performance of these companies will not only improve the economy as a whole, but also improves operations in private sector companies. For this reason, the OECD has developed guidelines on corporate governance PE, designed to meet the OECD principles on corporate governance (OECD, 2005). Based on the OECD principles of corporate governance, public companies should focus on policies that ensure good governance of these companies. Publicly owned enterprises in Kosovo, organized in the legal form have origins in the former SFRY. PE are strongly supported by public resources (subsidies) from the government (at the Federal level, Republican and Provincial) due to high initial investment and high cost of replacing their assets, and for the reason that they produce, " public services " and are valued lower than the average cost of production. For this reason, the PE in Kosovo are similar to state-owned enterprises in other market economies and can therefore be subject to the guidelines of the OECD Corporate Governance State Owned Enterprises (2005). One of the key activities of the European Union Pillar in Kosovo was the privatization of socially owned enterprises (SOEs), and the transformation PE into corporations.

On 13 June 2002, the United Nations Interim Administration Mission in Kosovo (UNMIK) issued Regulation no. 2002/12 on the Establishment of the Kosovo Trust Agency (KTA). With this regulation, the KTA was entrusted to manage the social and public enterprises in Kosovo.

KTA in 2004 initiated a project for the incorporation of PE in the modern corporation with clearly defined legal status, corporate governance and internal audit structure. Incorporation of PE in Kosovo is a legal process, creating a company "or new legal entity; clear corporate governance structure, clear financial rules, new balance, clear recording of assets and accounts etc.

KTA during 2005 to 2007 has incorporated all central and local PE and appointed a board of directors for each one. Modern corporation as organized form of enterprise is the most important innovation of the last century. This was the fastest sensibilization of economic growth which has led to more efficient distribution of resources and brought the creation of new technologies, production and productivity growth. Modern corporation is a term which appears in the form of the enterprise where the owners are not liable for the obligations that the company has created, which comes from sharing owner functions from enterprise management function. Modern Corporation presents the creation of wealth for the owners or other groups in a certain way. In order to meet the it's economic goal, corporation must meet various interests.

Must be ethical, profitable and responsive which is imperative for corporations in the period that is running our country. Successful corporations require proper corporate governance which bring the right progress. Good corporate governance practices will prosper in the market, will bring additional capital, will create competitive advantage and will bring the world changes and significant economic development. Further, corporate governance both, in theory and in practice is associated with companies in which the governance is clearly separated from the owners, according to the OECD definition. Corporate governance is a set of processes, rules, laws, policies and institutions that determine how a company is governed, administrated or controlled. It also includes the relationship of the many stakeholders involved in corporate governance. Therefore, corporate governance is concerned with the relationships between the different actors involved (stakeholders) and objectives on how the company is governed.

The leading actors are: shareholders, management and board of directors. Other parties include: employees, suppliers, customers, banks and other lenders, regulators, government, the environment and the wider community. Corporate governance is used to monitor whether the results are in accordance with the plans and to motivate the organization to be fully informed in order to keep or change the organization's activity. Public enterprises in Kosovo provide electricity supply, telecommunication services, rail, airport terminal, central heating, irrigation, water and sanitation, mainly at the municipal level. These companies have a major impact on the functioning of other sectors of the economy, as providing key inputs. They also affect the welfare of the citizens directly. Whatever their improvement is, it will have a direct and strong effect on the economy and society of Kosovo.

Reform and restructuring of public enterprises addresses the problem of corporate governance and bring good corporate governance procedures with international standards, such as those set by the OECD to state enterprises. Public enterprises, especially KEK should become market-oriented company in which private investors would participate, especially in the free and common market in the region, in accordance with the provisions of the Energy Community Treaty.

PE in Kosovo continued to be under the supervision of the KTA until the Declaration of Independence in 2008. After the Declaration of Independence, in June 2008 the LAW for PE was approved (Law 03/L-087). Under this Act PE were classified into central PE and government PE. According to the Law for the PE Section 3.1 all central PE passed into the ownership of the Republic of Kosovo (government).The Government according to the Law, is obliged to oversee the governance of these enterprises and to report to Parliament on an annual basis. Government according to the Law is mandated to initiate the introduction of the private sector in these companies (through concessions or partial privatization or full certain of segments of the PE).

1.2. Summary of research

This research aims to determine the basic characteristics of corporate governance in central PE especially KEK J.S.C. and provide an empirical basis for improving the quality and positive developments in corporate governance. The research will include 15 central and regional PE where Government of the Republic of Kosovo is 100% shareholder. The analysis is focused on specific issues related to PE in practice, understanding of relations and corporate governance standards. The report shows the status and main challenges for further development of corporate governance in Kosovo. After the introduction of this research, we will provide the following information based on PE in Kosovo, about the ownership structure, the composition of the board of directors and reporting via the website. The central part of the report is devoted to analysis of the results of the survey conducted amongst the members of the management and boards of directors, and received responses from 15 central PE. These have included stakeholders and relations in the corporate governance system, including the management, board of directors, shareholders, rights of other groups of interest, transparency and control. In addition to the certification of the results of the survey, interviews were conducted with representatives of the shareholder (government). At the end the conclusions and main recommendations are provided.

2. Analysis of general information on PE

Research on the quality of corporate governance includes 15 central and regional PE, where the Government of the Republic of Kosovo is 100% shareholder.

2.1. Ownership Structure

After the declaration of independence in June 2008 the Law for PE was approved f (Law 03/L-087). Under this Act PE were classified into central PE and PE local. Under PE Law Article 3, paragraph 3.1 all central PE passed into the ownership of the Republic of Kosovo (government). Government under the Law is obliged to oversee the governance of these enterprises and to report to Parliament on an annual basis. According to the Law for the PE article 4, paragraph 4.1 all PE are organized as a joint stock company (J.S.C.) in accordance with the applicable law on commercial companies. Also according to the Law Article 5, paragraph 5.1 Government has exclusive competence for the practice of shareholder rights in the Republic of Kosovo in the central PE. The government will decide on these issues with a simple majority vote. Under PE Law article 40, paragraph 40.1 if an enterprise is or becomes less than 50% owned, directly or indirectly, in the Republic of Kosovo, this enterprise is not PE and the remaining shares shall be governed by the law on trading societies. Government under the Law is mandated to initiate the introduction of the private sector in these companies (through concessions, partial or complete privatization of the segments of PE). Government of Kosovo for the first time has granted a concession for 20 years the Pristina International Airport (PIA). First public-private partnership contract no. PPP-09-001-611 signed on 12.08.2010 between the Kosovo government's inter-ministerial steering committee and Limak Kosovo JSC and basically contains the transfer of powers in the management and operation of (PIA) to the consortium Limak Kosovo composed by French operator ,,Aéroports de Lyon" and Turkish construction company ,,Limak Construction". Based on this contract it is required that the consortium ,,Limak Kosovo " has to make investments to build and expand the PIA, investing over € 100 million in new infrastructure, including the construction of a new terminal and approaching 39.42% gross income to the government in exchange for the right to concession. Government of Kosovo will retain 100% ownership of the airport property.

Kosovo Energy Corporation (KEK) is the only power enterprise in the Republic of Kosovo. It is vertically integrated and it was incorporated at the end of 2005. Today, the corporation's primary function is the production of coal, electricity production, its distribution, sales and customer care service. To fulfill their functions, KEK is organized into four main divisions: the Division of Coal Production, Power Generation, Distribution and Supply Division. The Corporation operates two surface mines, namely mining Mirash and Bardh, two power plants, TC "Kosovo A" and TPP "Kosova B" and a distribution network 18.898.43 km (from 0.4 kV voltage level up to 35 kV), which is extended to the whole territory of the Republic of Kosovo. Eventually it operates with supply sector, which includes the function of electricity sales. Corporate functions are regulated through policies of Energy Regulatory Office (ERO) of the Republic of Kosovo. Corporation has registered about 441,747 customers (end of year 2011) of different levels and employs over 7676 employees of various operating fields. Government of Kosovo in June 2012 awarded the company Limak & Çalik for privatization of Electricity Distribution and Supply (KEDS), priced 26.3 million, and is expected to take ownership in May 2013, and this process was opposed due to non-transparency from the opposition, non-governmental organizations and the general public.

The factors that influenced the assets of this corporation to be sold at a such a low price were; The Government, for not effectively exercising property rights of PE, mismanagement, corruption and many other factors; when considering the fact that neighboring countries like Macedonia, Montenegro black etc, roughly the same assets were sold ten times higher price. This becomes even more contentious by the fact that even after the sale of KEDS, corporation is making over 10 million Euro investment in this sector.

2.2. Composition of the Board of Directors

PE Law (Law 03/L-087) establishes a board-level model (one-tier board), known as the Anglo-American model. Under PE Law Article 15, paragraph 15.1 the board of directors of a central PE will consist of 5 or 7 directors. All directors, except one, will be addressed by the government and each elected director shall serve for a term of 3 years. Other Director shall be the chief executive officer (CEO) of PE and elected by the board of directors of PE in accordance with Article 21 of this Law. Under PE Law Article 17, paragraph 17.2 of all directors except the CEO should be independent. According to the Law Article 17, paragraph 17.6 for all directors of required once a year, to attend a training course in the field of corporate governance. Article 37, paragraph 37.1 provides for the establishment of the Unit for Policy and Monitoring Unit (POEMU) within the Ministry for the purpose of supporting the Minister and the Government in its responsibilities for PE which were given to them by the law. POEMU is responsible for organizing the training course PE directors, and based on our research findings, it is shown that each year such trainings were organized, in collaboration with international development agency of the United States (USAID) and the International Finance Corporation (IFC). During the election of directors to the board of directors of a central PE, the government may choose only persons who have been recommended by the concerned government recommending committee established in accordance with paragraph 2 of this Article. During the election of directors, the government should ensure that at least 2 directors are experts, or at least have an adequate knowledge of accounting, as required by Article 17, paragraph 17.4 of this law. Permanent Secretary of the Prime Minister shall appoint a committee recommendation of 7 persons to identify and recommend government candidates for director positions on the board of the relevant PE. In appointing the members of the committee recommendation, the Permanent Secretary shall appoint only senior civil servants or external experts with high qualifications and relevant industry experience, financial or corporate governance. Methods and criteria for the selection of directors are determined by the same law. Some of these criteria are professional adaptation, political impartiality, conflict of interest and should not be prosecuted. Permanent Secretary is also responsible for setting the rules of procedure, evaluation and identification of conflicts of interest. After recommending committee has selected a list of candidates, this list is sent to the government to choose the final members of the board which should be at least five more than the total number of directors. This happens in order to give the government a better chance of selecting directors of PE boards. There has been debate about names in the decisions to elect boards of directors in government meetings, but these names are only voted on the package. So the issue of appointment of director’s remains in law enforcement, when the selection of the list of candidates has to be voted by the Assembly is non-transparent and politically influenced.

The politicization of the boards of directors of the NP has also become an issue of concern for the international

presence in the country. On the basis of fair competition in December 2008, the government appointed directors NP boards and as a result there was interference by the International Civilian Representative (ICO) to ask the government the removal of 12 directors from the boards of NP due to the politicization of them. In a survey conducted by KIPRED identified at least 16 candidates for political office who have been elected to the boards of PE. Although defined by law, assess the professionalism of the Board of PE, it still remains problematic due to the lack of transparency in the board nomination process.
In a case investigated by KIPRED, a person has not met the majority of the legal requirements for being on BD a PE and such candidate has been settled suggests that the selection process is politically influenced and the selection of such persons decrease the performance of the NP and the quality of corporate governance.
The findings of the research show that any given professional training and biography for BD members are not published, but indirectly learn that all BD members possess a university degree. In 15 PE analyzed, BD has 91 members, of whom 6 were women (6.6%) and 86 men (93.4%). According to the law, the mandates of all BD have expired in December 2011, and after the announcement of two vacancies in 2012, the selection of new boards was not realized because of political interference. Law no. 04/L-111 on amending and supplementing the Law no. 03/L-087 PE (05/30/2012), provides that in any BD one members of non-majority communities has to be appointed. Choosing BD in PE remains as contested issue by the opposition, non-governmental organizations and civil society, criticism toward it had to do with the lack of transparency, political appointments, professionalism within the boards and high fees.
This becomes even more contentious by the fact that the deputy government coalition partner (AKR leader), who has said publicly that he has an agreement with a partner in government (PDK) for sharing of posts on the boards of PE.[82] So the research shows that PE boards are used as a sector where you can systematize party militants. Party militants employment, enables political parties to have more influence in these companies to push their policies. Also, it gives more opportunities for even more employment of politicized people in the lower ranks of the enterprise. Election of members of the Board such as PE, as well as agencies and other institutions due to political appointments are greatly challenged by opposition political parties, boycotting the sessions in the Assembly when it was voted for privatization agency BD week last year (February 2013), and the general public.

The number of members in BD- High as in the following figure: 1. will appear composition of BD in Kosovo PE.

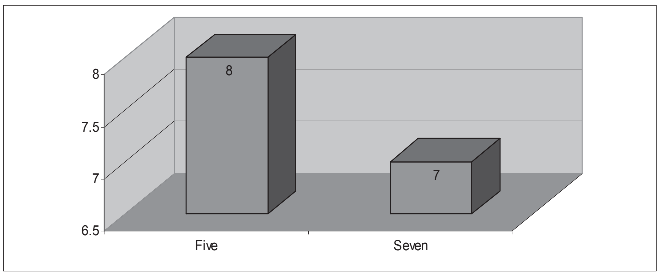

Fig.1. The number of members of the Board of Directors on 15 PE.

Fig: 1. Seen 8 PE have 7 directors, and 7 PE 5 directors (in each BD includes EC PE). KEK has 7 directors and until now has not been proven to professionalism and good performance.

Number of meetings- Number of meetings BD in PE for 2010 is shown as Fig. 2. BD KEK J.S.C. held 13 meetings in 2010.

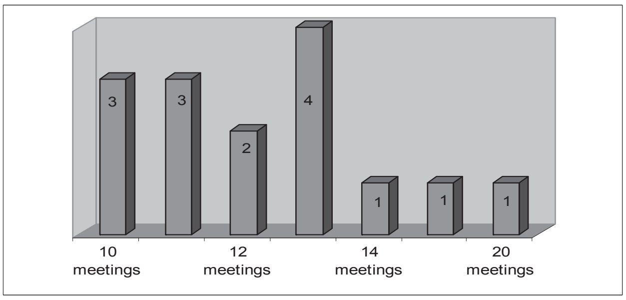

Fig. 2. Number of BD sessions in 15 central PE in 2010.

Internal Control- Under the law to all PE should form the audit committee, and each year should audited by an external licensed auditor. Based on the law, article 24, and paragraph 24.1 The Audit Committee consists of 3 directors who are appointed by the shareholder (government), 2 directors as experts, and the third member of a director other than the Chairman or CEO. Based on research in 15 central PE, results show that all PE formed functional internal audit committees and on average have held 10 meetings during the year. Also 15 PE are audited by external auditors according to the law after the end of the calendar year.

The formation of other committees- The research shows that 10 PE formed the respective committees, and 5 PE did not formed committees. Also none of the 15 PE no have established a risk management committee.

Separation of dividend- According to the research findings show that from 15 PE only 2 (PTK and PIA) of them have separated dividends to the government, and 13 other PE are not financially sustainable.

2.3. Compensation of Directors of PE.
Under PE Law article 20 paragraphs 20.1 Directors shall be paid a basic fee, which is determined in accordance with paragraph 20.2, for the time spent in meetings of the

[82] Gazeta, Jeta në Kosovë, Tetor 2011

Board. Directors will also be paid to performance incentive compensation in accordance with the remuneration policy statement developed and disclosed by the audit committee of BD in accordance with paragraph 4 of this Article. Subject to paragraph 20.2 the basic fee for PE directors is determined by a written decision of the government of Kosovo to Central PE. Subject to paragraph 20.4 of the audit committee shall prepare and public disclose a remuneration policy statement (bonuses) for PE and officers. Sharing bonus for PE directors under the law was set to 100% of the basic fee (base salary), but now with the change of law, Law no. 04/L-111 on amending and supplementing the Law no. 03/L-087 PE article 20 paragraph 20.5 limit ate annual performance incentive compensation as determined by the audit of financial statements and the publication of reports on the performance of the regulatory offices. This compensation (bonus) now paid to directors in an amount up to 50% of the basic fee set out in paragraph 2 of this Article. Also, Article 20 Paragraph 20.6 states that PE is responsible for payment of all compensation to its directors only by the payments provided by the decision of the shareholder (government). PE directors will not receive any compensation or benefits from the PE.

This self-assessment of BD-sharing bonuses without oversight by the shareholder is a conflict of interest and undermines the quality of corporate governance. According to the research findings show that the directors have received high bonuses without achieving performance and also benefited from the PE in other forms as the use of cars, trips abroad and other illegal forms. From a research journal Life in Kosovo, it was found that many of the principals on the boards of public enterprises are related to politics. In addition, the research showed that wages and salaries, that of the directors of these boards are much higher than average salaries in the country. Based on data on minimum and average wages in Kosovo can be estimated that the higher wages and lower PE is generally 1:02 to 1:10 ratio, but according to a survey shows that in some PE (at least 2 PE) the directors have taken salary plus bonus roughly to 30,000 Euro. The Government of the Republic of Kosovo with decision no. 07/56 of 18.02.2009 proposed rules on the amount of compensation of board members of central PE under this categorization.

Category 1: Post and Telecom of Kosovo (PTK), Pristine International Airport (PIA), and the Kosovo Energy Corporation (KEK).

Category 2: Transmission System and Market Operator (KOSTT) and Kosovo Railways.

Category 3: Central PE and other regional water sectors, and waste management.

Based on this decision the payment of board members shall be according to the table: 1.

Table: 1. Compensation scheme for members of boards of directors of central PE.

Category	Position	Board of Directors	Audit committee	Other committees
		Maximal monthly compensation	Maximal monthly compensation	Maximal monthly compensation
Category 1.	Chairman	850	200	250
	Members	750	150	210
Category 2.	Chairman	500	150	130
	Members	400	120	110
Category 3.	Chairman	320	120	110
	Members	270	100	95

PE performance evaluation- POEMU under the law Article 28, paragraph 28.3 has evaluated the effectiveness of the work of the central PE in 2010 and published a report in October 2011, according to this report in fig. 3. We will give information on the boards of directors have met, fully, partially, or not at all the duties (trusted) to the shareholder (government).[83]

[83] Ministria e Zhvillimit Ekonomik, Njësia për Politika dhe Monitorim të Ndërmarrjeve Publike (NJPMNP), Vlerësimi i Efektshmërisë së Punës së Bordeve të Drejtorëve të NP Qendrore për vitin 2010.

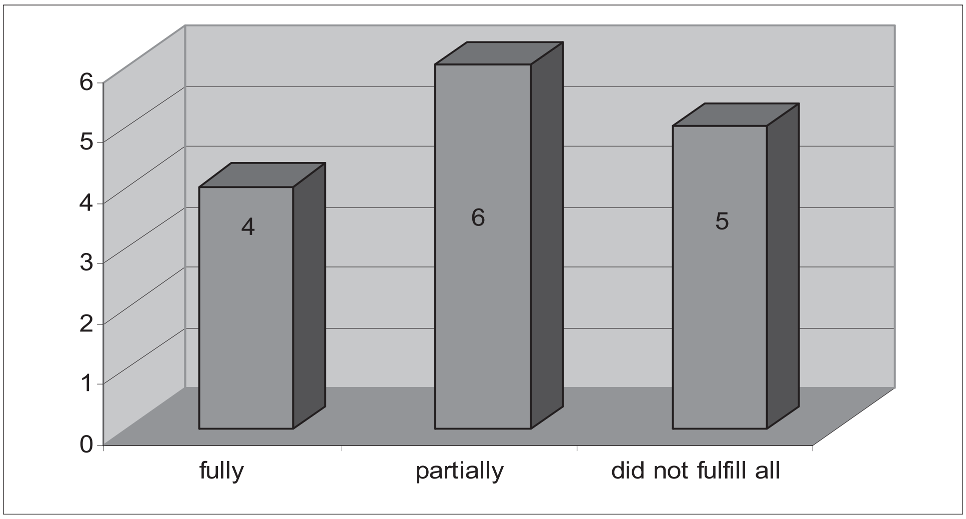

Fig.3. BD who fulfilled, fully, partially, did not fulfill all, fiduciary duties (trusted) to the shareholder (government).

From the above KEK is appreciated by POEMU than fully meet fiduciary duties (trusted) to the shareholder, but in the following tab: 2. will present the findings of the performance of KEK J.S.C.

Table: 2. The performance of the Kosovo Energy Corporation (KEK JSC), 000 Euro

Year	2008	2009	2010	2011
Sales	163,043	174,392	192,757	215,960
Revenue from grants and subsidies	47,695	58,472	44,055	38,030
Revenue (including grants and subsidies)	217,647	237,908	238,827	256,212
Other revenues	6,909	5,044	2,015	2,221
Revenues (excluding grants and subsidies)	169,952	179,436	194,772	218,802
Costs	218,841	232,895	224,865	240,979
Profit/Loss(including grants and subsidies)	-1,194	5,013	13,962	15,856
Profit/Loss(excluding grants and subsidies)	-48,889	-53,459	-30,093	-22,177
Number of employees	7529	7800	7749	7676
Commercial losses (%)	25.77%	23.63%	22.47%	19.79%
Technical losses (%)	17.06%	17.1%	17.05%	16.62%
Total loses (%)	42.82%	40.73%	39.52%	36.41%

Source: Finance Division, KEK, performance report for 2011, January 2012.

Table 2. It can be seen that KEK in the past 3 years had profit but here are including grants and subsidies received from the government. If we look at the lack of grants and subsidies then KEK result in losses. Last year's financial losses have decreased to 22,177 million Euro, while the commercial and technical losses are approximately 36.41% which is very disturbing and has a negative impact on attracting foreign investment.

2.4. Reporting through the website

The existence of the website of the PE and the quality of reporting on the Internet greatly facilitates access to existing and potential investors with relevant and timely information for companies. According to research by the total number of 15 PE analyzed only 9 of them have Internet Web site. It is also noted that maintenance of existing Web pages is insufficient. The research results show that the relevant information are poor for current and potential shareholders and other interested parties.

From 15 PE that were analyzed, only 3 PE have published financial statements for 2011 on their website, 1NP only until 2010, and with delays; others have not published at all. POEMU has published annual reports for 15 PE on its web site in 2010, and has also published external audit financial statements for 2011 for all PE but this website is poorly maintained and not all the reports can be opened, and for 2011 has not yet reported, although the law required to be reported in the Kosovo Assembly 75 days after the end of the calendar year. So even a year after there is no report on PE's financial statements for 2011 and this reduces the level of confidence of the public, investors, and corporate governance quality.

3. Conclusion and recommendations

Based on this research we can provide conclusions that the state of corporate governance in Kosovo PE is gradually improving, but there is still plenty of space for improvement and acceleration of this process. The positive effects of greater transparency and greater public access to information about the operation of the PE should be reflected. On the other hand, PE generally have done little to inform current and future potential investors, through their web pages. The analysis of the results of the survey among members of management and BD indicates that PE at least formally apply relevant regulatory mechanisms in the administration, such as the existence of rules and restrictions on certain strategies in decision-making and similar. But there are less regulated situations where there may be a conflict of interest in management members about PE or shareholders and related party transactions. BD members remuneration should be linked to business performance and be transparent. POEMU is satisfied with the cooperation and reporting of BD. Boards of directors should be professional and independent and not be subject to political influence. Remuneration of Directors based on the decision of the government are fixed, but the bonuses should be made transparent. Privatization of state-owned shares in certain PE has moved very slowly, which at the current level of management and their financial sustainability means relatively low quality of corporate governance in PE in Kosovo. PE whose shares are 100% government, reflected in the composition of the BD. From 15 PE analyzed in the research, none of them have a person or department in charge of relations with investors. All PE formed audit committee, but this committee has yet to be strengthened. Also all PE under the law are audited by external auditors, but these reports have many delays.

Based on these results, we can identify a number of key challenges facing corporate governance developments in Kosovo, in which the future of good corporate governance practices and additional instruments should affect. These are: a) the definition and promotion of best practices, b) protecting the interests of shareholders, b) strong role of boards of directors, c) greater transparency of remuneration for members of the BD and benefits be linked to business results, e) strengthening the internal control systems and to encourage appropriate organizational culture.

a) Definition and promotion of best practices of corporate governance

Considering the lack of knowledge about corporate governance, insufficient activities of educational institutions and professional associations, including members of management and boards of directors in Kosovo is present the problem of defining and promoting best practices of corporate governance. Only through such an approach which is more active as in private sector, as well as public sector, can identify the benefits for the improvement of corporate governance. The effective implementation of laws and regulations, as well as the sanctioning of irregularities is a prerequisite for the development of market economy institutions and its positive impact on the practice of good corporate governance. It also emphasizes the special role of POEMU (government) to oversee the financial statements of PE in Kosovo. It is recommended to strengthen oversight mechanisms within the government to provide quality corporate governance based on international advanced principles.

b) Protection of minority shareholders interests

The system of corporate governance and best practices are still evolving, PE have still present risk due to non-transparency of operations, which reflect the position of the shareholders as a whole, and especially in the position of minority shareholders. PE is owned by the Government of Kosovo, and after the introduction of the private sector in these enterprises, it is necessary to ensure equality of minority shareholders, especially in matters of accurate information within the time limits, transactions etc. PE Law Article 13 stipulates that PE subject to the same legal treatment as well as private enterprises. Law Article 12 provides that all shareholders should be treated the same. According to the law, it is intended to create a market equal to all shareholders, and it is in accordance with the principles of the OECD (2005), and it remains a challenge to be implemented by the government in the future.

c) Strengthening the role of the BD

BD's role is defined by law and is separated from the management. BD is the main body for the creation of effective corporate governance, because its task is to integrate the company's interests and the interests of current and future potential investors, and other stakeholders. Its action may be limited by the quality and obtain more information from the administration time, insufficient skills, knowledge and experience of some members of the BD for the oversight and strategic direction of the corporation. Improved information on the company, professional training, and independence of the members of the BD will help their efficiency, but also the quality and good reputation of the company. It is recommended that members of the Managing Board to be independent, professional and not be influenced by politics.

d) Greater transparency of remuneration for members of management and BD

It is necessary to improve the transparency of the remuneration of the members of management and BD, and their benefits are linked to business performance. It is recommended that the government should supervise directors that received bonuses without merit and achieved performance in the company.

e) Strengthening the internal control systems and to encourage appropriate organizational culture.

In all analyzed PE internal control systems function, but there is plenty of space and the need to strengthen them. Research shows, that no PE has not formed the (committee) for risk management. Quality of corporate governance includes transparency and effective mechanisms to manage business risks. At the level of the internal process that implies the need for an effective system of internal control. However, the control mechanisms are ineffective if the particular company the appropriate organizational culture that promotes transparency, accountability and long-term approach to creating value, is not rooted. This emphasizes the role of the firm's management, and the quality of leadership in the company.

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