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Bank governance impact on financial stability: Evidence from Algerian banks

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Abstract:

The study examines the impact of bank governance on the financial stability of Algerian commercial banks. Using panel data from eight banks over 2014–2021, totaling 64 bank-year observations, the findings reveal that board size, risk committee, and board committees significantly enhance bank stability. An expanded board and varied committees, especially the risk committee, enhance risk assessment and management, fostering cautious decision-making.

Conversely, chairman board tenure negatively correlates with stability, suggesting that long-tenured chairpersons may become overconfident, leading to riskier strategies. Control variables further indicate that ownership concentration, capital adequacy, and bank size positively influence stability. High ownership concentration enhances monitoring, reducing excessive risk-taking. Capital adequacy strengthens resilience by absorbing losses and limiting risk exposure. Larger banks benefit from portfolio diversification and superior risk management.

Overall, the results suggest that effective governance in Algerian banks reinforces financial stability by enhancing risk oversight, distributing control more efficiently, and preventing power concentration. Periodic leadership renewal ensures decision-making aligns with long-term stability goals, highlighting the crucial role of governance mechanisms in mitigating risks and sustaining financial robustness.

Keywords: *bank governance ; financial stability ; panel data regression ; banks ; Algeria*

Jel Classification Codes : *C33 ; G21 ; G28 ; G30 ; G32 ; G33 ; G38*

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1. Introduction

Bank governance serves as a cornerstone in ensuring the stability and security of the banking system. Robust governance frameworks foster trust, transparency, and accountability, enabling banks to operate efficiently and fulfill their systemic responsibilities. This is particularly crucial for systemically important banks, given their central role in maintaining the resilience of the broader financial system.

In the wake of recurrent economic and financial calamities, notably the 2008 global financial crisis, international regulatory authorities have increased their recognition of the significance of governance in the banking sector. These crises revealed critical vulnerabilities, including inadequate governance structures that intensified risks to financial stability. For instance, the Economic Co-operation and Development Organization (OECD) emphasized that the neglect of corporate governance principles and deficiencies in risk management significantly exacerbated the crisis. Similarly, the U.S. Financial Crisis Inquiry Commission identified governance and risk management failures within numerous banks as key contributors to the crisis.

Practicing governance principles is paramount to address these shortcomings and enhance the banking sector's resilience. Strong governance frameworks bolster risk management and promote sustainability, adaptability, and operational resilience. These improvements translate into higher operational efficiency, enhanced customer trust, increased profitability, and more excellent overall institutional value. Recognizing these advantages, global regulatory bodies have issued revised governance standards, such as those established by the Basel Committee on Banking Supervision 2015 principles for sound governance, which draw on international best practices. At the regional level, the Arab Committee for Banking Supervision issued updated governance principles in 2017 to strengthen stakeholder protections and foster an attractive investment climate.

On a global scale, integrating governance into institutional frameworks has become a shared priority. Algeria has aligned itself with these international efforts through several initiatives, including adopting the Algerian Corporate Governance Charter in 2009. In the banking sector, persistent crises have prompted Algerian regulatory authorities to enhance governance through legislative and regulatory measures. This commitment was reaffirmed by enacting the Monetary and Banking Law No. 23-09 in 2023, which introduced reforms designed to modernize the Algerian banking system and align it with global standards.

Scholarly interest in the relationship between bank governance and risk-taking behavior has grown, especially after global financial crises, highlighting how important governance is to preserving financial stability. Risk-taking is necessary for profitability and a possible danger to stability, given the regulatory and economic environment in which banks operate. This duality necessitates robust governance mechanisms to balance competing interests and align risk-taking behavior with sustainable financial outcomes. The current study examines this dynamic by focusing

on how governance structures affect risk tolerance in the Algerian banking sector. Specifically, this research investigates how governance quality, board characteristics, and executive attributes impact bank risk-taking, framed by the hypothesis that effective governance mitigates excessive risk-taking in Algerian banks.

The study underscores the significance of governance in affecting bank stability, using the banking system of Algeria as a key example to assess its effects. This study attempts to provide a thorough analysis and close this gap in the literature. We come up with four hypotheses. First, board size has a beneficial and considerable impact on Algerian banks' financial stability. Second, the risk committee has a favorable and substantial effect on the financial stability of Algerian banks. Third, the board committees have a positive and substantial impact on the financial stability of Algerian banks. Fourth, the financial stability of Algerian banks is severely and adversely affected by the chairman board tenure.

We test these propositions using a balanced panel data set of eight Algerian commercial banks from 2014 to 2021. By applying the general panel data regression models, we find that bank stability is positively and significantly impacted by board size and committees, especially the risk committee. This suggests that an expanded board size and the formation of diverse board committees, particularly risk committees, could improve the board's capacity to assess and mitigate risk-taking behaviors, resulting in a more cautious approach to risk management. However, the findings show that bank risk-taking behavior and chairman board tenure are negatively correlated, indicating that board chairpersons with longer tenures may become overconfident or overly dependent on their knowledge, which could lead them to take on riskier tactics.

2. Literature review

I.1. Corporate Governance Mechanisms & Bank Risk-Taking

Corporate governance mechanisms have long been posited as instrumental in regulating risk-taking behavior in banks. Magnis et al. (2024), state that governance structures significantly mitigate banks' propensity for risk-taking, especially in environments characterized by high regulatory scrutiny. Similarly, D. Nguyen (2024) underscores the importance of governance in transitional economies, highlighting that effective governance frameworks can stabilize banks in volatile contexts. The risk-taking propensity of banks is further influenced by institutional ownership and macroprudential policies, which can act as stabilizing forces during crises (Anh Vo & Joseph, 2024; Chan et al., 2024).

The board of directors' size, composition, and committees are important factors in determining risky conduct. Al Nabhani et al. (2024) highlight that board characteristics influence corporate risk-taking, with marked differences observed during periods of economic uncertainty, like the COVID-19 outbreak. Bellardini et al. (2024) introduce the Risk-Weighted Ownership index, linking ownership patterns to risk-taking. These studies provide empirical evidence that aligns with this study's focus on board size and risk committees.

Leadership roles such as CEO duality are crucial in shaping governance outcomes. Semeyutin et al. (2023) and Stetsyuk et al. (2024) explore the relationship between CEO characteristics, economic uncertainty, and risk cultures, reinforcing leadership's significance in governance. Additionally, Amin et al. (2024) find that independent directors' connectedness can exacerbate or mitigate risk-taking tendencies, contingent upon their congruence with the interests of shareholders. These results correspond with the research conducted by Sallemi et al. (2023), which shows that corruption control enhances the board's effectiveness in managing insolvency risk. Additionally, Jilani & Chouaibi (2021) explored this dynamic, providing evidence that CEO behavior substantially influences banks' risk-taking tendencies, Emphasizing the value of leadership in governance frameworks.

Furthermore, the presence of risk committees is critical in moderating risk-taking. For instance, Q. K. Nguyen & Dang (2022) demonstrate that risk governance structures, including dedicated risk committees, markedly enhance the efficacy of banks' risk management. As a result, Integrating risk committees in governance frameworks ensures a focused approach to identifying and mitigating risks (Hunjra et al., 2024).

CEO attributes, including duality and tenure, also play an essential role in influencing bank risk-taking. CEO duality, where the CEO also serves as the board chairman, often leads to increased risk-taking due to the concentration of power (Pour et al., 2023). Conversely, Ahmed et al. (2021) argue that prolonged chairperson tenures can instill stability and reduce excessive risk behaviors, aligning with findings by Fernandes et al. (2021) that examine the stabilizing effects of CEO power during financial crises. Lee et al. (2022) examine crisis-era governance structures, while historical perspectives from Felício et al. (2018) and Srairi (2019) underscore the enduring importance of governance in financial crises.

Internal governance mechanisms also play a pivotal role in determining financial stability. The study by Marie et al. (2021) on Egyptian banks underscores how governance practices influence financial stability, offering empirical insights into the effectiveness of governance systems in emerging economies.

The growing emphasis on responsible risk-taking as a mediator in the relationship between corporate social performance (CSP) and financial outcomes in banking illustrates the sector's evolving focus on sustainable practices (Conte et al., 2024). Similarly, frameworks like the GIB.X62 index highlight innovative methodologies for assessing governance efficiency within the banking sector (El-Abiad et al., 2023).

I.2. Global Perspectives on Governance and Risk Management

The governance impact on risk management is apparent in diverse settings, from Asia (Abid et al., 2021) to Africa (Kyei et al., 2022), underscoring the universal relevance of effective governance frameworks. Studies on audit committee roles (Q. K. Nguyen, 2022a) and capital ratios (Abbas et al., 2021) emphasize the importance of internal mechanisms in enhancing bank stability and managing risks.

Governance challenges in the MENA region, characterized by political and economic instability, have unique implications for risk management. Diab et al. (2023) analyze political risks during the Arab Spring. These findings align with earlier research by Elamer et al. (2019), which discusses how multi-layered governance enhances risk disclosure in emerging markets. Mateev et al. (2023) and Sallemi et al. (2023) focus on emerging economies' ownership structures and regulatory frameworks, providing valuable insights for Algeria.

The Algerian banking system operates within a regulatory framework that has evolved to address the challenges of a transitioning economy. Previous studies in similar contexts provide valuable insights. For instance, (Basty et al., 2023) show that macroprudential regulation and board effectiveness jointly influence bank risk-taking behavior. Similarly, Zhang et al. (2022a) contend that effective governance frameworks are necessary to reduce risk when there is economic uncertainty. Additionally, (Zhao et al., 2024) extend this analysis to deposit insurance, showcasing how regulatory mechanisms influence both personal and organizational risk sensitivities.

I.3. Risk Governance, Credit Risk and Predictive Modeling

Risk management mechanisms persist at the forefront of addressing credit risks, as demonstrated by (Rehman et al., 2019). Their findings in the Balochistan banking sector emphasize the criticality of robust risk management frameworks in reducing credit exposure and enhancing overall stability. Similarly, (Kedir et al., 2018) employed dynamic panel data models to investigate bank fragility in Africa, providing a nuanced understanding of risk factors contributing to instability.

This review also delves into predictive models for bank failures (Citterio, 2024), the implications of loan growth on risk (Wu et al., 2022), and how ownership and regulations shape risk behavior in emerging economies (Ofori-Sasu et al., 2022). Together, these contributions thoroughly comprehend the multifaceted factors driving risk and banking industry governance.

The broader implications of risk governance were discussed by (Rahim et al., 2015), who re-evaluated the concept to better align with contemporary challenges. Their work provides a foundation for rethinking governance structures to enhance risk mitigation strategies. Furthermore, (Adusei, 2015) highlighted the dual role of bank size and funding risk, revealing their significant influence on stability and suggesting that larger institutions might not always equate to increased resilience.

Our research adds to the literature in multiple ways. First, it is the first study in Algeria to use panel data analysis to investigate the impact of governance on bank financial stability, thereby contributing to the expanding literature (for example, Hunjra et al., 2024; Baral & Patnaik, 2023; Nguyen & Dang, 2022; Aljughaiman & Salama, 2019; Elamer et al., 2019). Second, this study integrates insights from a comprehensive body of literature to examine the governance-risk nexus in Algerian banks. By leveraging theoretical and empirical findings, this research aims to contribute to the ongoing discourse on governance effectiveness in shaping sustainable risk-taking behaviors in banks within emerging economies, offering empirical evidence from Algeria and addressing gaps in the literature. Consequently, adding to the literature that examines banking governance either as a

single index (El-Abiad et al., 2023; Nguyen & Dang, 2022; Permatasari, 2020) or by Multiple variables (Baral & Patnaik, 2023; Abdulla & Elshandidy, 2023; Ahmadyan & Ghasemi Ali Abadi, 2021; Addo et al., 2021; Zulfikar et al., 2020; Mansoor et al., 2020; Elamer et al., 2019; Aljughaiman & Salama, 2019; Rahim et al., 2015; Andres & Vallelado, 2008). Third, this research adds to the literature on the variables that influence banks' propensity to take risks, as covered in Citterio, (2024), Anh Vo & Joseph, (2024), Amin et al., (2024), Bellardini et al., (2024), D. Nguyen, (2024), Zhao et al., (2024), Conte et al., (2024), Hunjra et al., (2024), Chan et al., (2024), Semeyutin et al., (2023), Diab et al., (2023), Sallemi et al., (2023), Mateev et al., (2023), Lee et al., (2022), Kyei et al., (2022), Q. K. Nguyen, (2022a), Zhang et al., (2022a), Ofori-Sasu et al., (2022), Fernandes et al., (2021), Abid et al., (2021), Abbas et al., (2021), Marie et al., (2021), Srairi, (2019), Rehman et al., (2019), Kedir et al., (2018), Felício et al., (2018), Adusei, (2015).

3. Methodology

3.1 Data and sample

This study uses 64 bank-year observations from a balanced panel data set of 8 Algerian commercial banks from 2014 to 2021. These years were chosen for this study as they are the most extended periods for annual reports to be available. Currently, 20 commercial banks operate in Algeria: the state owns seven, one is a mixed bank, and foreign entities privately own the remaining twelve commercial banks. However, due to data availability issues, 12 of the 20 commercial banks were excluded from the study. Secondary data was gathered from the remaining eight commercial banks used to conduct the study (see Table 1).

Table (1) : Algerian commercial banks' list

No.	Bank Name	Symbol	Year of inception	Ownership
1	FRANSABANK El Djazaïr	FBA	2006	International bank
2	BNP Paribas El Djazaïr	BNP	2002	International bank
3	Société Générale Algérie	SGA	1999	International bank
4	Gulf Bank Algeria	AGB	2003	International bank
5	Bank ABC Algeria	ABC	1998	International bank
6	Trust Bank Algeria	TBA	2002	International bank
7	Banque Nationale d'Algérie	BNA	1966	National/public bank
8	Al Salam Bank Algeria	SBA	2008	International bank
9	Banque Extérieure d'Algérien*	BEA	1967	National/public bank
10	Crédit Populaire d'Algérie*	CPA	1966	National/public bank
11	Banque De L'agriculture Et Du Développement Rural*	BADR	1982	National/public bank
12	Banque De Développement Local*	BDL	1985	National/public bank
13	Caisse Nationale d'épargne et de Prévoyance- Banque*	CNEP	1964	National/public bank
14	Al Baraka Bank Algeria*	BBA	1991	Mixed Bank
15	Arab Bank Algeria*	ABA	2001	International bank
16	Housing Bank for Trade & Finance-Algeria*	HBTF	2003	International bank
17	Citibank Algeria*	CITIBA	1991	International bank
18	Natixis Algérie*	NBA	1999	International bank
19	H.S.B.C. Algeria*	HSBCA	2008	International bank
20	Banque Nationale De l'Habitat*	BNH	2022	National/public bank

Note: Banks denoted with (*) are omitted from the study
The source : Created by researchers

Data about the bank governance and financial stability variables are meticulously gathered from the annual reports of each commercial bank during the research period. Furthermore, the bank's annual reports furnish information for the control variables.

3.2 Variables selection

In the regression model, the variables are categorized into two groups to achieve the study's objective: explanatory and control variables, including bank governance and other influencing factors on financial stability, along with the dependent variable (LnZscore). The following is a synopsis of these factors.

3.2.1 Dependent variable

Consistent with earlier studies (for instance, Conte et al., 2024; Abid et al., 2021; Diab et al., 2023; Hunjra et al., 2024; Khémiri & Alsulami, 2023; Zhang et al., 2022), Our financial stability proxy is the natural logarithm of Z-score to assess bankruptcy risk, which is frequently used in academic literature (Laeven & Levine, 2009; Samet et al., 2018). The Z-score, computed as (ROA + ETA) / σ(ROA), represents the number of standard deviations by which a bank's ROA must decline below its mean before its equity is entirely depleted and classified as insolvent. Return on Assets (ROA) is calculated by dividing net income by total assets, whereas Equity to Total Assets (ETA) is determined by dividing equity by total assets (Boyd et al., 2006). Z-score has an inverse link with the likelihood of bank collapse since a higher Z-score denotes more substantial financial stability and lower insolvency risk.

3.2.2 Explanatory as well as control variables

This study utilised four indicators of bank governance, building on prior research (for example, Diab et al., 2023; El-Masry et al., 2016; Q. K. Nguyen, 2022b; Abid et al., 2021; Zhang et al., 2022; Berhe, 2023; Ahmed et al., 2021) The Board Size (BSIZE) is defined as the total number of directors on the board. The Risk Committee (RC) is a dummy variable, with a value of one (1) if a Risk Committee is present, and zero (0) if it is absent. The board committees (BC) are quantified as the aggregate number of standing board committees. The Chairperson board tenure (CBT) is defined as the natural logarithm of the number of years the Chairman has been on the board.

Additionally, consistent with past research (e.g., Kabir Hassan et al., 2016; Madugu et al., 2020; Andersen & Juelsrud, 2024; Diab et al., 2023) this research includes three more variables to control for Ownership Concentration (OC), Capital Adequacy Ratio (CAR), bank size (LnTA). Equity ownership percentage held by the bank's largest shareholder measures the Ownership Concentration (OC). The Capital Adequacy Ratio (CAR) is determined by the ratio of a bank's capital to its risk-weighted assets. A higher CAR indicates that the bank has a more substantial capital buffer, which reduces its likelihood of financial distress and enhances its ability to absorb losses, thereby discouraging excessive risk-taking behavior. Conversely, a lower CAR may signal weaker capital reserves, potentially incentivizing banks to take on higher risks to achieve greater returns, especially

in competitive markets. However, excessively high CAR values could lead to underutilization of resources, reducing profitability while maintaining reduced risk exposure.

The natural logarithm of a bank's total assets quantifies the Bank Size (LnTA). Major banks (higher BS values) may exhibit higher risk-taking behavior due to their perceived "too big to fail" status, which can create moral hazard and incentivize excessive risk-taking. They might also engage in complex financial activities that inherently carry higher risks. Conversely, smaller banks may adopt a more conservative approach to risk-taking due to limited resources, a higher sensitivity to financial shocks, and the absence of implicit government support. However, their smaller scale might constrain their ability to diversify risks effectively.

The variables used in this study are delineated and summarized in Table 2.

Table (2) : Variable Definitions

Variables	Symbol	Measures	Literature Source
Panel A: Dependent variable			
Financial Stability	LnZscore	Ln Z-score = Ln (ROA + ETA) / σROA	(Conte et al., 2024) (Abid et al., 2021) (Diab et al., 2023) (Hunjra et al., 2024) (Khémiri & Alsulami, 2023) (Zhang et al., 2022)
Panel B: Independent variables			
Board Size	BSIZE	The quantity of members on the board	(Diab et al., 2023)
Risk Committee	RC	This criterion is assigned a value of 1 if a risk committee exists and 0 if it does not.	(Abid et al., 2021) (Zhang et al., 2022) (Q. K. Nguyen, 2022b) (El-Masry et al., 2016)
Board Committees	BC	The total number of standing board committees	(Berhe, 2023)
Chairman Board Tenure	CBT	The duration of years served by the president of the board	(Ahmed et al., 2021)
Panel C: Control variables			
Ownership Concentration	OC	Equity ownership percentage held by the bank's largest shareholder	(Fernández-Méndez & González, 2019) (Srairi, 2013)
Capital Adequacy	CAR	Total Capital divided by Risk-Weighted Assets (%)	(Kabir Hassan et al., 2016) (Madugu et al., 2020) (Andersen & Juelsrud, 2024)
Bank Size	LnTA	The natural logarithm of total assets	(Diab et al., 2023)

The source : Created by researchers, based on Literature

3.3 Econometric model specification

This research examines the association between bank governance and financial stability using panel regression with (LnZscore) as the dependent variable. The subsequent equation delineates the econometric model:

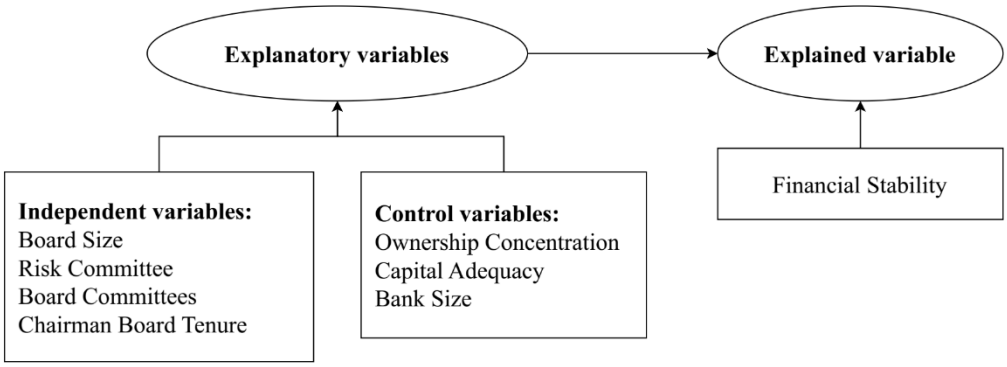
$$LnZscore_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 RC_{it} + \beta_3 BC_{it} + \beta_4 CBT_{it} + \beta_5 OC_{it} + \beta_6 CAR_{it} + \beta_7 LnTA_{it} + \varepsilon_{it}$$

LnZscore signifies the financial stability metric of bank (i) in year (t). The coefficients of multiple bank governance factors (BSIZE, RC, BC, and CBT) related to bank financial stability are usually called the β parameters.

The regression model is estimated using pooled, fixed, and random effects models. Furthermore, the Hausman test is employed in this research to ascertain the best suitable model between the fixed and random effect estimates. If the p-value is below 0.05%, the fixed effects model is superior to the random effects model (Pasiouras & Kosmidou, 2007). The random effects model is more suitable than the fixed effects model in this analysis, as the p-value exceeds 0.05% (see Table 6 for findings).

The bank governance includes the five variables BSIZE, RC, BC, and CBT, whereas the control encompasses OC, CAR and LnTA (see Figure 1).

Figure (1): Study model



The source : Created by researchers

4. Results and data analysis

4.1 Descriptive statistics

Table 3 exhibits the descriptive statistics for the dependent and independent variables of this study. The outputs reveal that the Ln of Z-score ranged from 2.644 to 4.687, with mean and standard deviation values of 3.787 and 0.438, respectively. On average, the banks in the sample have a relatively moderate level of financial stability. This Z-score indicates that these banks are sufficiently solvent and capable of withstanding financial shocks, as higher Z-scores generally correspond to lower probabilities of insolvency.

Table (3) : Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
LnZscore	64	3.787	0.438	2.644	4.687
CBT	64	5.922	4.355	1	18
BSIZE	64	6.797	1.756	5	12
RC	64	0.5	0.504	0	1
BC	64	2.297	1.874	0	5
OC	64	0.794	0.285	0.18	1
CAR	64	0.257	0.152	0.087	0.835
LnTA	64	19.042	1.31	17.013	22.223

The source : STATA 17 outputs

Moreover, based on the characteristics of bank governance, the average BSIZE is around seven members, with a min of five and a max of twelve. Additionally, approximately fifty percent of our sample of Algerian banks possess a risk committee. The average number of board committees in our sample of Algerian banks [2014–2021] is 2.297.

Furthermore, the average capital adequacy ratio (CAR) stands at 25.7%, exceeding the minimum requirement set by the Bank of Algeria, the banking regulator in the country. In line with Basel III guidelines, the Bank of Algeria considers banks with a Common Equity Tier 1 (CET1) capital adequacy ratio of at least 9.5% to be well-capitalized and financially stable. These findings suggest that the banks included in the study are predominantly well-capitalized.

Additionally, the ownership concentration mean is 0.794, with a low standard deviation of 0.285, indicating relatively consistent ownership concentration across banks, ranging from 0.18 to 1. The mean bank size is 19.042, with a standard deviation of 1.31, and it varies from 17.013 to 22.223.

4.2 Correlation matrix and multicollinearity diagnostics

Table 4 presents Pearson's correlation matrix for the sample variables. The findings indicate a significant correlation between (RC, BC, OC, CAR, and LnTA) and the dependent variable at the 10% significance level. The data also demonstrate a robust correlation among all bank governance characteristics. Moreover, the study indicates that all factors are significantly associated with Bank Size (LnTA), except for CBT. In addition, the research revealed a significant link among all control variables.

Table (4) : Correlation matrix

Variables	LnZscore	CBT	BSIZE	RC	BC	OC	CAR	LnTA
LnZscore	1.000							
CBT	-0.234	1.000						
BSIZE	0.027	-0.315*	1.000					
RC	0.446*	0.387*	-0.403*	1.000				
BC	0.253*	0.569*	-0.512*	0.798*	1.000			
OC	0.310*	-0.301*	0.552*	-0.159	-0.356*	1.000		
CAR	0.617*	-0.170	-0.300*	0.227	0.056	-0.256*	1.000	
LnTA	-0.338*	-0.134	0.408*	-0.446*	-0.300*	0.489*	-0.776*	1.000

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

The source : STATA 17 outputs

This study's variance inflation factor (VIF) values are less than 10, which lends more credence to the finding that multicollinearity is not an issue (see Table 5).

Table (5) : VIF

Variable	**VIF**
LnTA	4.37
BC	4.44
RC	3.99
CAR	3.33
BSIZE	1.84
OC	2.13
CBT	1.72
Mean VIF	**3.12**

The source : STATA 17 outputs

4.3 Regression analysis

This section provides a regression study of bank financial stability, quantified by the Ln of Z-score, against a set of explanatory variables. The influence of these variables on (LnZscore) is assessed by panel data regression, as illustrated in Table 6. The analysis examines bank financial stability (LnZscore) through governance factors (board size [BSIZE], risk committee [RC], board committees [BC], and Chairman Board Tenure [CBT]), in conjunction with control variables (ownership concentration [OC], capital adequacy ratio [CAR], and bank size [LnTA]).

Table (6) : Summary of model estimation results

Variables	Pooled effect LnZscore	Random effect LnZscore	Fixed effect LnZscore
CBT	-0.022***	-0.022***	-0.020***
	(0.00636)	(0.00636)	(0.00646)
BSIZE	0.055**	0.055***	0.057***
	(0.0163)	(0.0163)	(0.0165)
RC	0.149***	0.149***	0.218***
	(0.0836)	(0.0836)	(0.0924)
BC	0.126***	0.126***	0.119***
	(0.0237)	(0.0237)	(0.0247)
OC	0.699***	0.699***	0.652***
	(0.110)	(0.110)	(0.114)
CAR	2.546***	2.546***	2.450***
	(0.253)	(0.253)	(0.262)
LnTA	0.084**	0.084**	0.098**
	(0.0336)	(0.0336)	(0.0346)
Constant	0.410	0.410	0.158
	(0.694)	(0.694)	(0.711)
Observations	64	64	64
Number of YEAR	8	8	8
R-squared	0.870	0.874	0.877
Adj R-squared	0.854	/	/
F-statistic	53.55	/	50.04
Prob	0.000	0.000	0.000
Hausman Test	0.5733		
Autocorrelation Test	F (1, 7) = 0.521 Prob > F = 0.4938		
Heteroskedasticity Test	chi2 (8) = 11.27 Prob > chi2 = 0.1870		

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
The source : STATA 17 outputs

The Wooldridge test for autocorrelation in panel data was utilised to ascertain the existence of first-order autocorrelation in the residuals. The null hypothesis (H0) posits the absence of first-order autocorrelation. The test yielded a F (1, 7) statistic of 0.521, accompanied by a p-value of 0.494.

Since the p-value surpasses the significance threshold of 5%, we accept the null hypothesis. This result implies that the residuals are not serially correlated.

The Modified Wald test for groupwise heteroskedasticity in the fixed effects regression model was conducted to examine whether the variance of the residuals differs across entities. The null hypothesis (H0) assumes homoskedasticity, i.e., $\sigma i^2 = \sigma^2$ for all (i). The test statistic, χ^2 (8), is 11.27, with an associated p-value of 0.187.

Since the p-value surpasses the significance threshold of 5%, we accept the null hypothesis. This result suggests that the assumption of constant variance across entities holds.

The diagnostic tests confirm that the model does not suffer from heteroskedasticity or autocorrelation issues. The results corroborate the validity of the regression model assumptions, hence augmenting the dependability of the predicted coefficients.

Table 6 clarifies that in the random effects model for LnZscore, the R-squared value is 0.874, indicating that the explanatory variables explain 87% of the variation in banks' stability. Furthermore, the study's findings indicate that each bank governance characteristic substantially affects the bank's financial stability. The risk committee, board size, and board committees coefficients are both positive and noteworthy. Conversely, the analysis finds the Chairperson Board Tenure coefficient statistically significant and negative.

The findings show that board size (BSIZE) positively and significantly impacts the bank's stability (0.055). This supports hypothesis (H1), which suggests that larger board sizes strengthen the bank's financial stability and resilience by mitigating excessive risk-taking behavior, as indicated by the increase in the Ln of Z-score. Consequently, H1 is accepted. This outcome is consistent with the results of earlier research, such as Baral & Patnaik (2023), who documented a positive impact of governance factors, including board size, on banking efficiency and stability in the Indian banking context. Similarly, Amrani et al. (2022) noted that board structures, including size, enhance risk mitigation in cross-country banking analysis. Nevertheless, it contradicts the results of other earlier research, such as Q. K. Nguyen & Dang (2022), which found that larger board sizes might lead to inefficiencies, particularly in markets with suboptimal governance structures.

The outcomes demonstrate the risk committee's (RC) influence on the bank's stability is both positive and significant (0.149). This supports the hypothesis (H2) that the risk committee increases the LnZscore, suggesting it is a crucial element in bolstering the bank's overall stability and resilience. Through proficient risk monitoring and management, the RC enhances the bank's capacity to endure financial shocks, as evidenced by the elevated Z-score, a crucial measure of financial stability. Therefore, H2 is accepted. This result aligns with the findings of earlier studies (for instance, Sulayyem, 2023; Baral & Patnaik, 2023), but it is at odds with the results of other earlier studies (e.g., Davis et al., 2022; Al-Zoubi & Sha'ban, 2023).

Board Committees (BC) have a positive and significant coefficient (0.126) on the bank's stability. The hypothesis (H3) that a higher number of Board Committees raises the natural logarithm of Z-score suggests that a greater number of Board Committees enhances the bank's risk management capabilities, leading to increased financial stability and reduced risk-taking behavior. Therefore, H3 is accepted. This outcome supports the results of previous research (e.g., Baral & Patnaik, 2023;

Sulayyem, 2023), However, it contradicts the findings of Von Tamakloe et al., 2023, who observed differing impacts in the Ghanaian banking context.

The study shows that bank stability is significantly and negatively impacted (-0.022) by the Chairman of the Board's term (CBT). A lower Z-score indicates higher risk levels, confirming Hypothesis H4, namely that a longer chairman tenure is associated with a fall in the bank's Z-score, which indicates increasing risk-taking. This result implies that long-serving chairman could become overconfident or overly dependent on their experience, leading them to take on riskier strategies. Furthermore, prolonged tenure could undermine governance effectiveness as Chairman become entrenched in their roles, making them less responsive to external pressures advocating for prudent decision-making. Consequently, H4 is accepted. This outcome supports the results of previous research (e.g., Amrani et al., 2022; Q. K. Nguyen & Dang, 2022); however, these findings contradict the results of Von Tamakloe et al. (2023) and Davis et al. (2022).

The regression analysis offers significant insights into the control variables; the ownership concentration coefficient is significant and indicates a positive relationship between ownership concentration (OC) and the bank's stability. This suggests that banks with higher ownership concentration tend to exhibit greater stability, likely due to more effective monitoring and oversight by major shareholders, who have a stake in minimizing risk and ensuring long-term financial sustainability.

In addition, the calculated coefficient of the Capital Adequacy Ratio (CAR) is found to be positive and statistically significant for the bank's stability. This means that banks with higher capital adequacy ratios are more stable and better equipped to absorb losses, thereby reducing their risk-taking behavior and enhancing their overall financial soundness.

Moreover, outcomes indicate that the coefficients for Bank Size are favorable and significant for the bank's stability. This means that larger banks tend to exhibit better risk management practices and lower risk-taking behavior, likely due to portfolio diversification and access to more resources for managing risks effectively.

5. Conclusion

The research revealed that bank governance significantly influences financial stability, confirming the paper's primary hypotheses. Specifically, the results support the hypothesis (H1), indicating a strong and positive correlation between board size and the bank's financial stability. Furthermore, the findings validate hypothesis (H2) by demonstrating that the risk committee exerts a positive and statistically significant effect on a bank's financial stability. Similarly, the study confirms hypothesis (H3), showing that an increase in board committees positively and significantly affects a bank's financial stability. Furthermore, the study supports the hypothesis (H4), revealing a significant negative relationship between the bank's financial stability and the chairperson's board tenure.

The research findings are substantial. Initially, the favorable correlation between Board Size and bank stability suggests that having a larger board size provides diverse perspectives and expertise, strengthening decision-making processes. It enables the board to evaluate better and balance risk-taking behaviors, fostering a more prudent approach to risk management. A larger board size can also distribute oversight responsibilities more effectively, guaranteeing thorough oversight of the bank's operations. Second, the favorable association between risk committee and bank financial stability suggests that a dedicated risk committee strengthens the governance framework by ensuring risks are systematically identified, assessed, and mitigated. The risk committee's dedicated focus on risk oversight allows the bank to anticipate potential vulnerabilities and implement proactive strategies to protect its financial health, reducing the likelihood of severe financial disruptions.

Moreover, the results confirm a positive relationship between board committees and bank financial stability, suggesting that the diversity of board committees bolsters the board's efficiency and efficacy, thereby improving bank risk management. This outcome arises from how responsibilities are distributed among various committees, enabling a more detailed and in-depth focus on different aspects of governance, including risk.

Finally, the results confirm a negative relationship between chairman board tenure and bank stability, suggesting that board chairmen with extended tenures may develop overconfidence or overreliance on their expertise, leading them to adopt riskier strategies. Moreover, longer chairperson tenures may undermine governance effectiveness, as board chairpersons may become entrenched in their roles, making them less responsive to external pressures to make wise decisions.

Accordingly, these findings reinforce that effective governance structures promote disciplined and balanced risk-taking within banks. Strong governance mechanisms, such as periodic leadership renewal and checks on executive authority, prevent the concentration of power and ensure that decision-making remains aligned with the bank's long-term stability and resilience objectives.

The research findings support the notion that taking risks and bank governance are strongly correlated. Therefore, the findings may be helpful to regulators and policy experts who create regulations for banking and financial system governance. For example, forming a specialized risk committee within the board can enhance its effectiveness, improve the bank's risk management oversight, and decrease the chances of significant financial disturbances.

Therefore, the Bank of Algeria should enhance its governance framework by adopting best practices aligned with the study's findings. This includes optimizing banks' board composition by increasing its size to incorporate diverse expertise, forming a specialized risk committee to ensure focused risk management oversight, and implementing tenure policies for board chairpersons to prevent entrenchment and maintain governance effectiveness. These measures will strengthen governance, foster disciplined risk management, and promote the bank's financial stability and resilience, setting an example for effective governance across Algeria's banking sector.

The study has specific limitations that may necessitate further inquiry. The main source of the data is the bank's annual reports, which may not accurately represent the banks' genuine risk

management processes and risk-taking behavior due to inadequate disclosure rules in developing countries like Algeria. Secondly, the study employs a singular indicator of banks' stability (the Ln of Z-score), which researchers might augment by using additional metrics of banks' financial soundness, such as the Risk-Adjusted Return on Capital (RAROC) and Loan-to-Deposit Ratio (LDR). The analysis includes only four bank governance characteristics, and future researchers may explore additional variables such as board independence, CEO tenure, and bank age to deeper understand the relationship between bank governance and financial soundness. Finally, studies might enhance this researcher by examining the bank governance impact on bank profitability.

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