

*Pompei Mititean**

THE IMPACT OF CORPORATE GOVERNANCE CHARACTERISTICS ON COMPANIES' FINANCIAL PERFORMANCE: EVIDENCE FROM ROMANIA

ABSTRACT: *This paper assesses the possibility of a relationship between corporate governance mechanisms, as independent variables, and firm performance measures, as dependent variables. The data was taken from the annual reports of a sample of 66 companies listed on Bucharest Stock Exchange in Premium and Standard categories during the period 2016–2020. The SPSS statistical program was used to run the multivariate linear regression model on the selected sample. Additional variables were used to control for leverage and size. The results of the study are mixed. Board size, board gender, and board meetings have a positive impact on a firm's performance,*

measured by both return on assets (ROA) and return on equity (ROE). CEO duality has a positive and significant impact on a firm's performance measured by ROA, while a negative and insignificant correlation was founded for ROE. Board independence has a negative and insignificant association with both firm performance measures. The results obtained can help companies to manage their corporate governance.

KEY WORDS: *corporate governance, firm's performance, Romanian listed companies*

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* Bucharest University of Economic Studies, Romania; e-mail: mititeanpompei19@stud.ase.ro
ORCID:<https://orcid.org/0000-0003-1015-2182>

1. INTRODUCTION

The link between corporate governance and firm performance has been widely debated in recent years, especially after the 2008 crisis. Multiple studies have analysed the link between the different characteristics of both corporate governance and a firm's performance and various authors have studied this correlation using different corporate governance mechanisms and measurements.¹ Lungu et al. (2020) and Mititean and Constantinescu (2020) suggest that the most common variables used to measure corporate governance are governance index, board size, board gender, chief executive officer (CEO) duality², and board independence, while for return on assets (ROA) and return on equity (ROE), Tobin's Q (TQ) ratio and market value are used to measure firm performance.

Previous studies have produced mixed results regarding the link between corporate governance and firm performance. Khatib and Nour (2021), Choi et al. (2020), and Khan et al. (2019) find that board size has a positive impact on firm performance, while Cheng (2008) and Al-Matari et al. (2012) find a negative relationship. Board independence is negatively associated with firm performance according to Koji et al. (2020) and Terjesen (2015) and positively associated according to Duru et al. (2016), Uribe-Bohorquez et al. (2018), and Tleubayev et al. (2020).

The aim of this research is to investigate the possible associations between corporate governance mechanisms and firm performance for a sample of 66 companies listed on Bucharest Stock Exchange in the Premium and Standard categories. This paper uses the quantitative method used by most researchers on emerging European countries, as suggested by Mititean and Constantinescu (2020). Thus, the paper intends to evaluate the impact of board size, board independence, board gender diversity, board meetings, and CEO duality on corporate performance, measured by a company's ROA and ROE.

¹ For example Wang et al., 2017; Borlea et al., 2017; Rashid 2018; Choi et al., 2020; Ciftci et al., 2019; Duppati et al., 2019; Wijethilake & Ekanayake, 2019; Papangkorn et al., 2019; Liu & Jiang, 2020; Hsu et al., 2019; Pintea et al., 2020; Idris & Ousama, 2021; and Khatib & Nour 2021.

² CEO duality occurs when the CEO serves both as chief executive officer and chairs the company board.

The obtained results are mixed. For instance, board size, board gender, and board meetings have a positive impact on firm performance as measured by ROA and ROE, while CEO duality and board independence have significant positive and negative impacts respectively on a firm's performance, as measured by ROA. The analysis was extended to cover 2019 and 2020 in order to investigate the impact of the COVID-19 pandemic on firm performance. The results suggest that board gender has a positive impact on firm performance in uncertain times for ROA while CEO duality negatively affect this relationship.

The rest of this paper is organised as follows: the second section presents the most recent literature on the subject, while the third section presents the research design and method, variables, and data sample. The fourth section presents the results of the descriptive statistics, Pearson correlation and Spearman rank correlation, and linear regression. The fifth section concludes.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The relationship between corporate governance and performance has been widely debated at both the national and international level (Mititean & Constantinescu, 2020). An interesting study conducted by Lungu et al. (2020) shows that in emerging countries the most common metrics used by researchers from emerging economies to measure corporate governance are the board's independence, the corporate governance index, and the board's size, while performance is measured by ROA, ROE, and Tobin's Q ratio.

2.1 Board size and financial performance

Many empirical investigations of the relationship between board size and business performance produce mixed results. Wang et al. (2017) study the influence of board size on company performance in the Taiwanese hotel industry. Using a panel regression model on a sample of 448 observations during 64 quarters (1998–2013) and using the total number of directors on the company board as the metric for corporate governance and sales growth rates, and ROA, ROE, and TQ as performance metrics, the results show that a smaller board has a positive impact on company performance, while a bigger board has a negative impact. Choi et al. (2020) find that board size has a significant impact on financial performance in alcohol industry companies in the United States during the

period 2003–2017. Merendino and Melville (2019) study this relationship for Italian listed companies during 2013 and 2015 and find a positive association between board size and firm performance. Ciftci et al. (2019) find a positive effect of board size on firm performance.

Borlea et al. (2017) study the relationship between board characteristics and firm performance for a sample of 55 Romanian non-financial companies listed on the Bucharest Stock Exchange in 2012 and find no statistically significant association. Duppati et al. (2019) find a negative association between board size and company performance for the non-financial companies listed on the SGX Mainboard in Singapore and the National Stock Exchange (NSE) in India during the period 2005–2015. Board size is found to have a positive effect on company performance during uncertain times in a study conducted by Khatib and Nour (2021). Hermuningsih et al. (2020) find that board size significantly improves firm performance.

Based on the results of previous studies, we conclude that studies on developed countries show a positive association between board size and firm performance, while for studies conducted on developing countries the results are mixed. Thus, our first hypothesis is:

H1: Board size has a positive impact on financial performance in Romanian listed companies.

2.2 Board independence and financial performance

Independent directors must be qualified for certain activities established by the board of directors and are not majority shareholders. Shan (2019) studies the impact of board independence and managerial ownership on firm performance using 9,302 firm-year observations for Australian listed companies in the period 2005–2015. The results indicate a negative effect of board independence on firm performance and/or vice versa. Merendino and Melville (2019) find a positive effect of board independence on firm performance. Liu et al. (2015) study the association between board independence and firm performance for a sample of 2,057 firms listed on the Shanghai and Shenzhen Stock Exchanges during 1999–2012, collecting a total of 16,999 firm-year observations. Measuring firm performance using ROA, ROE, and TQ, the results shows that independent

directors have a positive effect on firm performance. Li and Roberts (2018) conduct a study of New Zealand for the period 2004–2016 analysing the association between board independence and firm performance and find that board independence does not improve firm performance. Thus, the results are mixed, which may be explained by the different industries and years of observation.

Some studies are concerned with the relationship between board independence and firm performance in developing countries. Rashid (2018) analyses the impact of board independence on company performance in 135 firms listed on the Dhaka Stock Exchange during 2006–2011. The results suggest that board independence does not have a positive impact on firm performance. Borlea et al. (2017) also find no significant relationship between these variables. Khatib and Nour (2021) find a negative effect in uncertain times. Based on these results we develop our second hypothesis:

H2: Board independence has a positive impact on financial performance in Romanian listed companies.

2.3 Board meetings and financial performance

Frequent board meetings help managers to understand the main problems arising in their firms (Hanh et al. 2018). However, Hanh et al. (2018) examine the effect of board meetings on company performance using a sample of 94 companies listed on the Ho Chi Minh Stock Exchange during the period 2013–2015 and find that board meetings negatively affect company performance. Khatib and Nour (2021) also suggest a significant negative influence on firm performance.

Eluyela et al. (2018) study the impact of board meeting frequency on company performance in 15 deposit money banks on the Nigerian Stock Exchange during the period 2006–2011. The results shows that board meetings have a positive impact on company performance. Idris and Ousama (2021) examine board meetings and firm performance for a sample of 42 companies listed on the Qatar Stock Exchange (QSE) for the year 2018. Using two regression models (ROA and ROE), the results reveal that board meetings have a positive impact on firm independence. Our third hypothesis is based on these studies:

H3: Board meetings have a positive impact on financial performance in Romanian listed companies.

2.4 Board gender diversity and financial performance

Studies that look at gender differences in business have shown that women lead differently from men: they tend to mitigate conflict by being more collaborative (Bart and McQueen 2013, Gipson et al. 2017, Kirsch 2018). Papangkorn et al. (2019) examine the impact of female directors on firm performance using a sample of 16,156 firm-year observations for the years 2008 and 2009. Their study shows that gender diversity on a board has a positive impact on firm performance.

Duppatti et al. (2019) analyse the influence of gender diversity on company performance in non-financial companies listed on the SGX Mainboard in Singapore and the National Stock Exchange (NSE) in India during the period 2005–2015. Using multiple regression analysis on 8,833 firm-year observations, the results reveal that gender diversity has a positive impact on company performance. Idris and Ousama (2021) find a positive relationship between gender diversity and financial performance. In these studies, board gender diversity is measured as the ratio of the total number of female directors on boards to the total number of directors on boards. Based on these results, our fourth hypothesis is developed:

H4: Board gender diversity has a positive impact on financial performance in Romanian listed companies.

2.5 CEO duality and financial performance

The impact of CEO duality on firm performance has been widely debated, with mixed results. In an analysis of Romanian and Bulgarian banks during 2005–2015, Onofrei et al. (2018) find that if CEO duality exists it has a negative and statistically significant impact on bank performance, while the absence of CEO duality has a positive impact. Wijethilake and Ekanayake (2019) apply multiple regression on a sample of 212 companies listed on the Colombo Stock Exchange in Sri Lanka for the year 2009. The results shows that the CEO not being the head of the executive board has a negative effect on firm performance, while CEO duality has a positive effect on company performance.

On the other hand, Hsu et al. (2019) find that CEO duality has statistically significant negative impacts on company performance, while Chang et al. (2018) find that CEO duality has a positive effect on company performance. Uppal (2020) analyses this relationship for the auto industry in India during 2011–2016. The results show that CEO duality can significantly impact this relationship. In these studies, CEO duality is a dummy variable that equals 1 if CEO and chairman are not separate roles and 0 otherwise. Based on the previous results, our fifth hypothesis is developed:

H5: CEO duality has a positive impact on financial performance in Romanian listed companies.

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Data sample

The aim of this study is to examine the impact of corporate governance mechanisms on firm performance in an emerging country. The data for our study was collected from the annual reports of the Premium and Standard companies listed on the Bucharest Stock Exchange during the period 2016–2020. Financial companies are excluded because they are highly leveraged and subject to different regulations. Also excluded are companies without data for the whole period. The 10 industries included in our sample are listed in Table 1.

Table 1: Sample and industries

Industry	No of companies	% of sample
Accommodation and Food Service Activities	4	6%
Construction	4	6%
Manufacturing	41	62%
Mining and Quarrying	4	6%
Transportation and Storage	4	6%
Wholesale and Retail Trade	3	5%
Other	6	9%
Final sample	66	100%

Source: Authors' calculation

3.2 Variables

Details of the variables used in this research are summarised in Table 2. To have a holistic approach to the dependent variable measuring company performance, two financial indicators were considered: Return on Assets and Return on Equity. Because the focus of this study is financial performance, we choose accounting-based measures, as many other authors use this metric (Bachmann et al., 2019; Ciftci et al., 2019; Wang et al. 2017; Detthamrong et al., 2017; Gaur et al., 2015; Koji et al., 2020; Kyere and Ausloos, 2020; Lam et al., 2013; Mishra et al., 2020; Din et al., 2021).

Five independent variables were taken into consideration: board size, board independence, board meeting frequency, gender diversity, and CEO duality. Two control variables were included: leverage, calculated as the ratio of total debt to total assets, and firm size, calculated as the natural logarithm of total assets.

Table 2: Variables used in the linear regression model

Variable	Proxy	Type	Description	Referenced studies/research
Board size	BZ	I	Total number of board members	Arora and Sharma (2016); Bachmann et al. (2019); Christensen et al. (2010); Ciftci et al. (2019); Detthamrong et al. (2017); Gaur et al. (2015); Hamutyinei et al. (2015); Kılıç and Kuzey (2016)
Board independence	BI	I	The number of independent directors on the board divided by the total number of board members	Arora and Sharma (2016); Bachmann et al. (2019); Christensen et al. (2010); Ciftci et al. (2019); Wang et al. (2017); Shuaib et al. (2021); Detthamrong et al. (2017); Hamutyinei et al. (2015); Kılıç and Kuzey (2016)
Board meetings	BM	I	The number of board meetings held every year	Christensen et al. (2010); Hamutyinei et al. (2015); Koji et al. (2020); Papangkorn et al. (2019) and Khatib and Nour (2021)

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Variable	Proxy	Type	Description	Referenced studies/research
Board gender diversity	BG	I	The ratio of the total number of female directors on the board to the total number of board members	Ciftci et al. (2019); Wang et al. (2017); Detthamrong et al. (2017); Kılıç and Kuzey (2016); Papangkorn et al. (2019); Khatib and Nour (2021); Duppati et al. (2019); Li and Chen (2018); Marinova et al. (2016)
CEO Duality	CEO	I	Dummy variable: equals 1 when CEO doubles as board chair and 0 otherwise	Wijethilake and Ekanayake (2019); Arora and Sharma (2016); Christensen et al. (2010); Ciftci et al. (2019); Shuaib et al. (2021); Detthamrong et al. (2017); Gaur et al. (2015) and Kyere and Ausloos (2020)
Return on Assets	ROA	D	The ratio of earnings before interest and taxes to total assets	Bachmann et al. (2019); Ciftci et al. (2019); Wang et al. (2017); Detthamrong et al. (2017); Gaur et al. (2015); Koji et al. (2020); Kyere and Ausloos (2020); Lam et al. (2013); Mishra et al. (2020) and Din et al (2021)
Return on Equity	ROE	D	Profit after tax as percentage of total equity	Wang et al. (2017); Detthamrong et al. (2017); Lam et al. (2013); Din et al (2021) and Khatib and Nour (2021)
Leverage	LV	C	Ratio of total debt to total assets	Akbar et al. (2016); Arora and Sharma (2016); Ciftci et al. (2019); Shuaib et al. (2021); Detthamrong et al. (2017); Hamutyinei et al. (2015); Kılıç and Kuzey (2016) and Kyere and Ausloos (2020)
Firm size	FZ	C	Natural logarithm of total assets	Kyere and Ausloos (2020); Mishra et al. (2020); Din et al (2021); Khatib and Nour (2021); Duppati et al. (2019) and Li and Chen (2018)

Notes: I – Independent variable; D – dependent variable; c – Control variable;

3.3 Research method

Linear regression analysis was used to determine the relationship between corporate governance mechanisms and firm performance. Regression analysis has been widely used by other researchers (Ciftci et al., 2019; Wang et al., 2017; Detthamrong et al., 2017; Kılıç and Kuzey, 2016; Papangkorn et al., 2019; Khatib and Nour, 2021; Duppati et al., 2019; Li and Chen 2018; Marinova et al., 2016). The SPSS statistical program was used to run the regression model on the selected sample. The regression model used to analyse the influence of corporate governance mechanisms on company performance is expressed as follows:

$$FP_{it} = \beta_1 BZ_{it} + \beta_2 BIND_{it} + \beta_3 BM_{it} + \beta_4 BG_{it} + \beta_5 CEO_{it} + \beta_6 LV_{it} + \beta_7 FZ_{it} + \varepsilon_{it}$$

where FP is firm performance, which subsequently takes the value of the return on assets (ROA) and return on equity (ROE), BZ is board size, $BIND$ is board independence, BM is board meeting, BG is board gender diversity, CEO is CEO duality, LV is leverage, FZ is firm size, β_{1-7} are regression coefficients, and ε_{it} is the error term.

4. RESULTS

4.1 Descriptive statistics and correlation matrix

Table 3 presents a descriptive analysis of corporate governance characteristics, company performance, and other firm-level control variables for the Bucharest Stock Exchange-listed firms. The sampled firms show a mean ROA value of 0.03 and mean ROE value of 0.11. The minimum ROE is -16.09 and the maximum value is 14.08, which can be translated as a difference between companies.

The mean of board size is 4.54, and 46% of the boards are independent. Twenty-eight per cent of the CEOs are also board chairs, and the mean of board meetings is 15.05 per year. The gender diversity average of Bucharest Stock Exchange listed firms is 0.19, ranging between 0.00% and 100%. This low percentage of gender diversity on boards suggests that the companies listed on the BSE have little female representation.

Table 4 reports the Pearson (below the diagonal) and Spearman (above the diagonal) correlation matrix for all the variables. Board size and CEO duality are

positively correlated with ROA at the level of 0.001 and 0.05 respectively, while board independence is negatively correlated with ROA at the 0.05 level.

Table 3: Descriptive Statistics of Variables

Variable	N	Min	Max	Mean	Std. Dev.	Variance	Skewness		Kurtosis	
							S	SE	S	SE
BZ	325	1.00	11.00	4.54	1.78	3.17	0.31	0.14	0.54	0.27
BI	225	0.00	1.00	0.46	0.30	0.09	0.49	0.16	-0.74	0.32
BG	312	0.00	1.00	0.19	0.22	0.05	1.16	0.14	1.42	0.28
BM	214	0.00	60.00	15.05	11.43	130.55	1.64	0.17	2.56	0.33
CEO	319	0.00	1.00	0.28	0.45	0.20	0.97	0.14	-1.06	0.27
ROA	325	-1.11	2.09	0.03	0.17	0.03	3.91	0.14	69.96	0.27
ROE	325	-16.09	14.08	0.11	1.32	1.75	-1.62	0.14	109.31	0.27
LV	325	-2.05	5.04	0.52	0.69	0.47	3.36	0.14	16.50	0.27
FZ	325	12.04	24.56	19.07	1.96	3.86	-0.15	0.14	1.87	0.27

Notes: S – Statistic; SE – Std. Error

Source: Authors' calculation

Table 4: Pearson/Spearman correlation matrix

Variable	BZ	BI	BG	BM	CEO	LV	FZ	ROA	ROE
BZ	1	-.266**	0.05	.293**	-0.014	-.255**	.496**	.350**	.115*
BI	-0.063	1	-0.064	.148*	-.183**	0.088	-0.034	-.139*	-0.106
BG	-.160*	-0.022	1	-0.034	0.022	-.160**	0.001	0.036	-.129*
BM	.259**	.213**	-0.094	1	-.194**	-0.017	.362**	0.104	-0.002
CEO	-0.062	-.186**	0.042	-.205**	1	0.063	-0.04	.141**	.144**
ROA	.231**	-.147*	0.074	0.125	.147*	-.223**	.197**	1	.485**
ROE	0.013	-0.069	0.117	-0.020	0.036	.304**	.098*	-0.061	1
LV	-.143*	-0.043	-0.081	-0.115	0.068	1	0.035	-.509**	.233**
FZ	.475**	0.083	-.212**	.428**	-.237**	0.000	1	0.053	-0.056
VIF	1.37	1.09	1.06	1.31	1.11	1.06	1.59	-	-
Tolerance	0.73	0.92	0.94	0.76	0.90	0.95	0.63	-	-

Notes: In the above table, Pearson (Spearman) correlations are presented below (above) the diagonal of the matrix. *Correlation is significant at the 0.05 level **Correlation is significant at the 0.01 level (1-tailed).

Source: Authors' calculation

No correlation was identified for the dependent variable ROE according to the Pearson correlation matrix. However, the Spearman correlation matrix positively correlates board size with ROA at the 0.001 level and with ROE at the 0.05 level. Board independence is negatively correlated with ROA, while board gender has the same correlation with ROE. CEO duality is positively correlated at the 0.001 level with both ROE and ROA.

We use the variance inflation factor (VIF) to check for potential multicollinearity issues. The results shows that the VIFs for the independent variables are below 10 (the range is between 1.06 and 1.59) and the tolerance range of between 0.63 and 0.95 is above 0.1, which means that there is no multicollinearity, in accordance with Shan (2015) and Wang et al. (2019).

4.2 Regression results and discussion of research hypotheses

Table 5 presents the relationship between corporate governance mechanisms, represented by board size (BZ), board independence (BI), board gender (BG), board meetings (BM), and CEO duality (CEO), and firm performance, represented by ROA and ROE. The coefficient of board size is positive for both ROA and ROE, but the results are insignificant (Sig. >0.05), thus supporting H1. This means that larger boards have a positive impact on firm performance. Our results are consistent with studies by Khatib and Nour (2021), Choi et al. (2020) and Khan et al. (2019), but contradict Cheng (2008) and Al-Matari et al. (2012).

The percentage of board independence is negative and significant for ROA (Sig. <0.05) and negative and insignificant for ROE; thus H2 is not supported. The negative association between board independence and firm performance is in accordance with prior studies by Koji et al. (2020) and Terjesen (2015) but contrary to the results of Duru et al. (2016), Uribe-Bohorquez et al. (2018), and Tleubayev et al. (2020). The results suggest that for BSE-listed firms the percentage of independent board members does not increase firm performance.

Table 5: The impact of corporate governance mechanisms on firm performance

Dependent Independent	ROA		ROE	
	Coefficient	Sig.	Coefficient	Sig.
(Constant)	0.053	0.424	0.123	0.633
BZ	0.008	0.058	0.019	0.258
BI	-0.057	0.029	-0.066	0.514
BG	0.029	0.379	0.229	0.076
BM	0.001	0.162	0.001	0.591
CEO	0.041	0.007	-0.002	0.974
LV	-0.167	0.000	0.293	0.001
FZ	0.000	0.905	-0.013	0.339
F statistic	12.391		2.174	
Durbin-Watson	2.131		1.813	
Adjusted R-square	0.349		0.046	
ANOVA Sig	<.001 ^b		0.039 ^b	
N	325			

Source: Authors' calculation

Regarding H3, gender diversity has a positive correlation with ROA and ROE but it is insignificant (Sig. >0.05), which means that the percentage of women on the board increases the level of firm performance but not significantly. Thus, H3 is supported, in accordance with prior studies by Li and Chen (2018), Duppati et al. (2019), Bin Khidmat et al. (2020), and Đặng et al. (2020).

Board meetings have a positive impact on ROA and ROE but it is insignificant, which suggests that H4 is supported. Our results are in accordance with Eluyela et al. (2018) but contrary to Hanh et al. (2018).

Finally, CEO duality has a positive impact on firm performance for ROA at the 0.05 significance level and an insignificant positive impact on ROE, which means that H5 is supported. Our result are contrary to Wijethilake and Ekanayake (2019), Hsu et al. (2019), and Tang (2017), which suggests that if the same person is both chair of the board and chief executive officer the effect on firm performance is negative.

4.3 Additional analysis

We conduct an additional test for the years 2019 and 2020 to see if the COVID-19 pandemic impacts the link between corporate governance mechanisms and firm performance. We split our sample into 2019 and 2020 subsamples for both ROA and ROE firm characteristics, as shown in Table 6.

The results suggest that in 2020, during times of uncertainty, board gender diversity had a positive impact on firm performance characterized by ROA, while in the previous year it had an inverse association that was negative and insignificant. CEO duality had a negative but insignificant impact during the crises but a positive impact on firm performance in 2019. Board size had a positive impact during uncertain times in 2020 but a negative impact in 2019, both insignificant, which means that larger boards helped to improve firm performance measured by ROE during the crisis period.

Table 6: The impact of corporate governance mechanisms on firm performance: Year subsample

	ROA				ROE			
	2020		2019		2020		2019	
	B	Sig.	B	Sig.	B	Sig.	B	Sig.
(Constant)	-0.032	0.785	0.211	0.183	-0.228	0.692	0.340	0.239
BZ	0.012	0.062	-0.004	0.628	0.021	0.494	-0.002	0.918
BI	-0.050	0.304	-0.080	0.177	-0.131	0.586	-0.080	0.454
BG	0.188	0.025	-0.022	0.742	0.576	0.153	0.115	0.349
BM	0.000	0.735	0.001	0.283	0.000	0.983	0.002	0.468
CEO	-0.008	0.804	0.075	0.021	0.206	0.177	0.019	0.739
LV	-0.069	0.148	-0.142	0.014	-0.395	0.096	0.292	0.007
FZ	0.001	0.896	-0.005	0.590	0.010	0.720	-0.018	0.252
F statistic	2.296		1.763		1.333		2.190	
Durbin-Watson	2.151		2.306		1.869		1.684	
Adjusted R-square	0.197		0.126		0.070		0.184	
ANOVA Sig	0.061 ^b		0.132 ^b		0.278 ^b		0.064 ^b	
N	32		38		32		38	

Source: Authors' calculation

Board meetings had a positive impact on ROA and ROE during both years. The percentage of women on boards and CEO duality had a positive impact on firm performance measured by ROE, while board independence had a negative impact for the BSE-listed firms for both periods, which means that if the boards had more independent directors, performance would not increase.

5. CONCLUSION

This study examines the impact of corporate governance mechanisms on firm performance in an Emerging European Country using descriptive statistics and regression analysis for a sample of 66 companies listed on the Bucharest Stock Exchange in Premium and Standard categories during the period 2016–2020. The corporate governance mechanisms used are board size, board independence, board meetings, board gender diversity, and CEO duality. Firm performance was measured by ROA and ROE, while firm size and leverage were control variables. The data sample was realised manually by taking the information from the annual reports of the listed companies.

The regression results suggest that board size, board gender, and board meetings have a positive impact on firm performance, measured by both ROA and ROE, supporting hypotheses H1, H3, and H4. These results are similar to the results of Khatib and Nour (2021), Choi et al. (2020), Khan et al. (2019), Li and Chen (2018), Duppati et al. (2019), Bin Khidmat et al. (2020), and Eluyela et al. (2018). H2, regarding to the positive impact of board independence on firm performance measured by ROE and ROA, is not supported; the results show a negative relationship between these characteristics. CEO duality is positively and significantly correlated with ROA and negatively correlated with ROE, while board independence is significant but negatively correlated with firm performance measured by ROA.

This study also investigates the impact of the COVID-19 pandemic on the relationship between corporate governance mechanisms and financial performance. After dividing our sample into the years 2020 and 2019 the regression results suggest that in uncertain times board gender has a positive and significant impact on firm performance measured by ROA, while a negative but insignificant relationship was identified for CEO duality in uncertain times. In

addition, board size had a positive but insignificant impact on firm performance measured by ROE during uncertain times.

Like other studies conducted on emerging countries, our results were mixed. In our study on Romania, board size has a positive impact on both ROA and ROE, while Duppati et al. (2019) found a negative relationship for companies in Singapore. Our results partly agree with Borlea et al. (2017), who found board size to be insignificant. Board independence has a negative impact on ROA (significant) and ROE (insignificant), in accordance with the results of Rashid (2018), who studied this relationship for Bangladesh, and partly agreeing with Borlea et al. (2017), who found an insignificant impact on financial performance. Board meetings and board gender diversity have an insignificant positive effect on financial performance in our study, as Eluyela et al. (2018) found for board meetings in their study on Nigeria. This result partially agrees with the results of Duppati et al. (2019), who found a positive and significant impact. CEO duality has a positive impact on ROA (significant) and ROE (insignificant), unlike the results of Onofrei et al. (2018) who found a negative relationship for Bulgaria, and partially in accordance with Ekanayake (2019).

Our findings have important implications for companies, shareholders, regulators, and government because they suggest that companies and regulators should improve their reporting and establish new rules for corporate governance. This paper fulfils an identified need to study how corporate governance mechanisms can affect firm performance and contributes to the literature by offering new insights into the link between corporate governance and firm performance in an Emerging European Country.

Our study has some limitations. First, due to data limitations the number of governance variables was restricted. Second, some companies were not included in the study due to the unavailability of data for the chosen variables. Future research could be extended to more corporate governance mechanisms and more firm performance measurements. The sample could also be extended by taking one industry and collecting data for more Emerging European Countries in order to find possible new patterns.

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