



## The Effect of Board Characteristics on the Financial Performance: Evidence from Romania

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## THE EFFECT OF BOARD CHARACTERISTICS ON THE FINANCIAL PERFORMANCE: EVIDENCE FROM ROMANIA

*This paper examines the impact of board structure (more precise the impact of the board size and the board independence) on the firm's financial performance for a sample of 1,432 Romanian companies, in a time frame that range from 2008 to 2015. Based on different types of static panel data regressions: Pooled Ordinary Least Squares (OLS), Fixed Effects (FE), Random Effects (RE) and a corrective model (PCSE), the main results indicate the fact that between board size and firm performance is an inverse relationship and between board independence and firm performance is a direct relationship. A potential explanation for these results consists in the fact that, although the introduction of the corporate governance principles which regulate the structure of the board of directors has been achieved late, Romanian companies have succeeded in adopting and practicing the concept of good corporate practices.*

**Keywords:** board size, board independence, financial performance, Romania

**Introduction.** In recent decades, in the literature, researchers have increasingly focused on identifying how the shareholder structure exerts influence on the company's financial performance. As a result of the separation of management and ownership, researchers are trying to identify the existing relationship between the shareholders / board of directors and management and, in particular, to what extent the financial performance of the company is affected by this relationship.

The contemporary economic environment is characterized by uncertainty and risk, which makes it increasingly difficult to control the factors that influence firms' performance (Kuratko & Morris, 2003). In response to external pressures, companies are using different strategies such as restructuring, upgrading business processes, managing goals, etc. to maintain or, more importantly, to improve their competitive position (Jacka & Keller, 2002). In a dynamically changing environment, the importance of the board is growing more and more. To this regard, the board of directors should perform several functions: to monitor the management decisions in order to reduce the agency costs (Shleifer & Vishny, 1997; Roberts et al., 2005), to provide the external financial resources (Hillman et al., 2000; Hendry & Kiel, 2004), to propose and to implement the strategic plan (Kemp, 2006), etc.

In this respect, the main objective of this paper is to identify and explore the relationship between the board structure (more precise the board size and the board independence) and their financial performance. The purpose of this scientific approach is, on the one hand, to complement the existing literature and, on the other hand, to provide a useful tool for analyzing and improving the financial performance of companies.

Based on these considerations, the first part of this paper summarizes the most important studies found in the literature. The paper continues by describing the data and the methodology used to develop the empirical study and the main results obtained. The final part of the paper presents the conclusions and the remarks of the study.

**Literature review.** An important point considered in the literature is the relational one. It refers to the link between the board structure and the financial performance of the companies through (1) the size of the board of directors, (2) the independence of the board of directors, respectively (3) managerial ownership (Denis and McConnell, 2003; Bozec, 2005; Gillan, 2006; Adams, Hermalin and Weisbach, 2010).

**Board size.** The two most important functions of the board of directors are the advisory and monitoring functions (Raheja, 2005; Adams and Ferreira, 2007). Firstly, the counseling function involves both access to high-confidential information and resources and the delivery of specialized counseling services to the general manager (Fama and Jensen, 1983). Although researchers note the importance of external managers who bring high-quality expertise, the counseling function is done by both internal and external managers. One of the great advantages of the wider board is the complexity of the information held by its members, which, in turn, will lead to decisions that can add value to the company (Dalton et al., 1999, 2005). Secondly, it is the responsibility of the board to monitor, to discipline, to appoint managers and to ensure that their interests are in line with those of shareholders. Raheja (2005) argues that internal managers are an important source of information about the specificity and activity of the company, but at the same time due to the pursuit of personal goals, their decisions can diminishes the company's performance. Unlike internal managers, external managers are more independent, providing more efficient monitoring, but less information on the specificities of the company's business. Therefore, in the context of increasing the size of the board of directors, both functions require an improvement in the company's performance. Moreover, this performance improvement is expected to be even more prominent as the increase in the presence of external (independent) managers in the board of directors occurs.

However, Lipton and Lorch (1992), Jensen (1993) and Hermalin and Weisbach (2003) argue that the size of the board of directors should be limited to 7-8 members. A wider council may have several disadvantages, such as lower efficiency and difficult monitoring by the general manager, or more time-consuming decisions regarding the company's activities.

The relationship between the size of the board of directors and the performance of the company may differ not only through the specific characteristics of the company but also by the institutional characteristics of an economy. Thus, in countries where there is a high degree of heterogeneity, the functions of the board of directors may be different, and therefore the relationship between the size of the board and the performance of the company is expected to be different.

Therefore, these researchers' arguments have been tested empirically, reporting different results. Making a leap in the literature, one can notice that most empirical studies show a negative relationship between the size of the board of directors and the performance of the company. Following the impact of the board's size on the company's performance, Yermack (1996) notes that a small-sized board can improve the quality of its performance as well as the overall performance of the company. A few years later, Conyon and Peck (1998) conducted a survey on UK companies over the period 1992-1995 and found a significant negative relationship between the size of the board of directors and profitability, while Laster

(2004) had the same negative impact on the Tobin-Q indicator. In addition, the negative influence of the board of directors on the performance of the company was confirmed in the studies conducted by Loderer and Peyer (2002), Mak and Kusnadi (2005), Haniffa and Hudaib (2006), Cheng et al. (2008) and Coles et al. (2008). On the other hand, researchers Dalton et al. (1999) and Adams and Mehran (2005) performed studies that show a positive effect of the size of the board of directors over the performance of US companies.

**Board independence.** The structure of the board of directors, as well as its independence, are important characteristics of the relationship established between shareholders and managers, ranging from one company to another. Most board members include both the general manager and the company's internal and external shareholders. Internal shareholders, being part of the company, are more knowledgeable about organizational activities and provide meaningful information, while external shareholders, through skills, knowledge expertise and objectivity to reduce the cost of agent problems, exercise control over decisions taken by managers (Farinha, 2003). Thus, through the presence of external shareholders, the board of directors improves both its practicality (Ghosh, 2006) and the decision-making process that leads to the company's performance (Adams & Mehran, 2003). In their research, Hermalin and Weisbach (1988) and Dobrzynski (1991) consider external managers to be the "true" representatives of shareholder interests. Therefore, their presence in the board of directors gives it independence from the shareholders, this feature being the most important in terms of its functionality and efficiency.

The capacity to effectively monitor the board of directors and to mitigate agent problems depends largely on its independence. According to Fernandes (2008), companies whose board of directors consists mostly external managers are less likely to face the problems of agent theory, thus recording a convergence of managers' and shareholders' interests. Therefore, the independence of the board can improve the performance of the company. In this context, it may seem surprising that both economists and researchers support the idea that the independence of the board of directors is a "key element" of corporate governance. Most economies have adopted legislation that requires consistent presence of external managers (independent) on the board of the company.

Research from the literature on the association between the board's independence and the performance of the companies led to mixed results. On the one hand, a multitude of research supports a significant positive relationship between the board's independence and the performance of the companies (Fama & Jensen, 1983; Gompers, Ishii & Metrick, 2003; Agrawal & Chadha, 2005; Abor & Biekpe, 2007). For example, Black and Khanna (2007), Dahya and McConnell (2007), and Black and Kim (2012) examine companies operating in India, UK and Korea and conclude that an increase in independence of the board of directors leads to increased performance of companies. In another study, considering 22 non-US states, Dahya, Dimitrov and McConnell (2008) have similar results, concluding that the influence of the board's independence is more visible in countries where the level of investor protection is very low. A year later, these results are corroborated by the findings of studies conducted by Aggarwal et al. (2010) and by Bruno and Claessens (2010).

However, Fosberg (1989), Hermalin and Weisbach (1991), Bhagat and Black (2001) and Abdelsalam, Masry and Elsegini (2008) identify the lack of association between the board's independence and the company performance indicators. Fosberg (1989) and Abdelsalam, Masry and Elsegini (2008) represent the performance of companies through the ROE indicator and Hermalin and Weisbach (1991) and Bhagat and Black (2001) measure performance through the ROA and Tobin-Q indicators.

**Managerial ownership.** In the literature, the management and / or the board of directors of the company, holding both control over the activities undertaken and the decision-making process, as well as the ownership of a part of the company's capital, is called managerial (internal) ownership. In fact, as Berle and Means (1932) mentioned, managerial ownership depends on the distribution of the shares between the owners of the company (shareholders) and the controlling (managers).

The first studies on the effect of managerial ownership on company performance have been performed in the 1970s, when large companies began to provide consistent incentives to managers to share their interests with those of shareholders. A more complex approach to this relationship belongs to researchers Jensen and Meckling (1976), who divided the shareholders into two categories: on the one hand, "internal shareholders" who control the decision-making process, holding a fraction of the company's capital and, on the other hand, "external shareholders" who are not entitled to the decision-making process. The shares held by the first category of shareholders is in fact an incentive that company gives to managers in order to align the interests of both parties. In the research conducted, the authors argue that the lack of monitoring and control measures of managers' activity can reduce the level of confidence of potential investors. Thus, in order to improve this level of investor confidence and at the same time to reduce the costs of monitoring managerial activity, shareholders decide to give managers a fraction of the company's capital. As a result, managers become shareholders of the company, aligning their interests with those of "external shareholders" (shareholders who do not hold the position of managers) and, on the other hand, ensuring the positive effects of good management of the company's business, by recording higher performance.

In this respect, there are numerous studies in the literature on the association between managerial ownership and financial performance of the company. However, the results of the studies do not clearly identify the relationship established between these variables. One of the first approaches regarding this relationship belongs to researchers Morck, Shleifer and Vishny (1988), who empirically tested the effects of managerial ownership on financial performance. The results of the study indicate a significant, non-monotonous relationship. Using the sample of Fortune 500 American companies, the authors obtain an inverted U-shaped relationship. These results show that the company's performance increases in the same direction as the share held by domestic shareholders up to a point where their objectives become divergent to those of "external shareholders". Moreover, McConnell and Servaes (1990) develops the previous study including a larger number of companies. The results obtained are similar mentioning that the change of direction of influence of the internal shareholders on the performance of the company is achieved at a point of inflection in which the shares held by the internal shareholders reaches 40% - 50%.

A few years later, Ang, Cole and Lin (2000) conducted a study involving 1,708 small companies from the United States. Research results refer to agent monitoring costs which are significantly higher when the company's management consists mostly of "external managers". In fact, the higher managers' shares in the company, the higher the costs of monitoring and controlling their decision-making process. Singh and Davidson (2003) confirm that a higher level of internal ownership can reduce agency costs, bringing the managers' interests closer to those of shareholders.

In another study, Kaserer and Moldenhauer (2008), using a number of 648 German companies, obtain a positive relationship between managerial ownership and financial performance. A higher percentage of managerial ownership may improve the company's performance as the company's managers who own a part of their capital will be less inclined towards decisions aimed at directing capital to investments that minimize the value of the company. However, Hu and Izumida (2008) specify that an optimal level of the shares held by internal shareholders is determined by several factors such as the size of the company, the industry it belongs to and its performance. During the same period, Cornett, Marcus and Tehranian (2008) conducted research, considering companies listed on the Tehran stock market, with the results confirming the positive influence of managerial ownership on the company's performance. Moreover, this positive relationship continues until the percentage of the shares held by the managers reaches a considerable level, which leads to the diversification of the interests of the two parties. From this point, managers will follow those decisions that help to achieve their own interests, paying little attention to increasing the value of the company. Therefore, a high percentage of managerial ownership changes the meaning of the relationship, having a negative influence on the performance of the company.

In fact, the relationship between the company's managerial ownership and its performance may be due to the presence of specific company features that at first glance might remain unnoticed. Thus, a possible explanation for the diversified results is that some studies did not take into account the influence that heterogeneity might have on the variables considered. Due to the fact that the ownership structure is a variable that can be determined or influenced by one or more variables, another problem that could interfere and distort the empirical results is that of endogeneity. Demsetz and Lehn (1985) show that the structure of US companies' ownership is determined by the size of the companies, the volatility of stock market shares, the position occupied in the industrial branch in which companies operate, and other variables. Thus, the authors conclude by the fact that the managerial ownership is an endogenous determined variable. A few years later, this idea was developed in the research performed by Himmelberg, Hubbard, and Palia (1999), in which the authors extended the previous study by using a model with instrumental variables to identify the presence of endogeneity among the used data. The results indicate that variations in the ownership of the domestic shareholders are mostly influenced by the presence of endogeneity and do not influence its performance.

In a more complex approach, Agrawal and Knoeber (1996) treat the company's performance in terms of control mechanisms of agent theory, showing the interdependence between them on a sample of 800 US companies. The authors performed the empirical study, considering, on the one hand, a cross-section analysis for each control mechanism and, on the other hand, an integrated model. Following the results of each control mechanism, in the case of internal shareholders, the authors obtain results indicating a positive influence on the performance of companies only if they are viewed in isolation from the other control mechanisms considered. Moreover, in the case of the integrated model, the influence of managerial ownership on the company's performance becomes insignificant from a statistical point of view.

Holderness et al. (1999) reconstructs the main aspects of the study undertaken by Demsetz and Lehn (1985) and Morck et al. (1988) considering another period of analysis. They obtain, on the one hand, a positive relationship between managerial ownership and the company's financial performance in the case where the percentage held by managers is in the range of 0-5%, and on the other hand, the relation becomes statistically insignificant when the percentage exceeds the 5% threshold. In another study, doing a correction of endogeneity, Bøhren and Ødegaard (2001) report a positive relationship between managerial ownership and the performance of non-financial companies listed on the Oslo stock market. On the other hand, Goud (2002) conducts a research involving 25 countries that were part of the former bloc of the Soviet Union and concludes that the results obtained are not true due to the lack of instrumental variables that control the presence of endogeneity. Al Farooque et al. (2007) performs a two-level study in which it considers, on the one hand, the relationship between managerial ownership and the performance of the companies measured by Tobin-Q and, on the other hand, considers a system of two equations represented by the ownership structure and the same variable for company's performance. The obtained results indicate that in the first case the ownership structure has an influence on the financial performance, but it is not statistically significant. In the second case, the results differ considerably in the sense that between the performance of the companies and the structure of the managerial ownership there is a statistically significant negative relationship, indicating a presence of endogeneity, which allows to determine the percentage owned by the managers through the performance of the companies.

**Data and methodology.** The impact of board size and board independence on the financial performance of the largest companies from Romania is analysed within a panel data framework. The sample comprised a number of 1,432 companies, with data for a period of 8 years (2008-2015). The source of data is AMADEUS, platform database of Bureau van Dijk (2017).

The dependent variable describes the financial performance. Although in the literature there are identified more variables as potentially capturing firm performance, in this study, firm performance was measured by using two variables: return on total assets (ROA) which represent the company's profitability related to its total assets and return of equity (ROE) which denotes the return on the investment of the equity owners.

In order to capture the potential impact of board size and board independence on financial performance, two dummy variables (BRD.SIZE and BRD.IND) were constructed. Regarding the variable BRD.SIZE, it was assigned a value of 1 for companies if the number of shareholders who are members of the board of directors is greater than or equal to seven or 0 if the board of directors is made up of no more than six shareholders/members. Regarding the variable BRD.IND, it was assigned a value of 1 if the percentage of independent shareholders, members of the board of directors, is greater than or equal to 20% or the value of 0 in other cases. These two variables are invariant over time.

An appropriate set of control variables was considered, in line with the literature on financial performance determinants: firm age (AGE) defined as the natural logarithm of company age since establishment of the company until the certain year; firm size (SIZE) represents the annual absolute change of natural logarithm of total assets; liquidity (LIQID) measures the proportion of current assets to the company's current liabilities; leverage (LVRG) measures the proportion of funds provided by creditors and stockholders using to finance its assets and tangibility (TANG) shows the proportion of fixed assets (tangible assets) over total assets. The correlation matrix of the variables is illustrated in the Appendix.

First, it was performed a Pooled Ordinary Least Squares (OLS) estimation. Based on the analysis of the literature on corporate financial performance determinants, it was assumed that firms have their own intrinsic characteristics which

could influence the financial performance. Therefore, it was estimated a fixed effects (FE) model. It was also estimated a random effects (RE) model which imply a random variation across firms. In order to decide between fixed effects and random effects, a Hausman test was conducted which showed that fixed effects estimator should be preferred. Tests results were reported in the lower part of the estimation tables. In addition, it is important to identify the autocorrelation issue before the standard errors of the estimated coefficients to be computed. Wooldridge test for autocorrelation pointed out that first order autocorrelation could not be rejected. Given the evidence of strong cross-sectional dependence, the presence of heteroscedasticity and autocorrelation, Prais-Winsten PCSE estimation was used as the baseline scenario. The procedure fits linear models when the residuals are not independent and identically distributed, allowing correcting cross-sectional dependence, heteroskedasticity and autocorrelation.

$$Y_{i,t} = \beta_0 + \beta_k X_{i,t} + \varepsilon_{i,t} \quad (1)$$

where Y represents dependent variable (ROA, ROE),  $\beta_0$  represents the constant,  $\beta_k$  are the slopes of independent variables, X reflects the interest variable (BRD.SIZE, BRD.IND) and the control variables (SIZE, AGE, LIQID, LVRG and TANG),  $\varepsilon_{i,t}$  is the random component of the error which varies over both firms and time, i - the firms, t - the time.

**Results.** Table 1 and Table 2 show the results of the regressive analysis of the relationship between the financial performance of companies, the size of the board of directors, the independence of the board of directors respectively, and the control variables.

Table 1. Results of regression analysis - board size

VARIABLES	ROA				ROE			
	(1) OLS	(2) FE	(3) RE	(4) PCSE	(5) OLS	(6) FE	(7) RE	(8) PCSE
BRD.SIZE	-1.571*** (0.225)		-2.725*** (0.457)	-1.571*** (0.431)	-2.413*** (0.579)		-4.489*** (1.118)	-2.413** (1.014)
SIZE	-1.351*** (0.0703)	1.057*** (0.170)	-0.478*** (0.112)	-1.351*** (0.190)	-2.739*** (0.181)	2.118*** (0.470)	-1.294*** (0.287)	-2.739*** (0.395)
AGE	-1.532*** (0.178)	-4.401*** (0.325)	-2.388*** (0.245)	-1.532*** (0.297)	-3.152*** (0.460)	-8.335*** (0.899)	-4.234*** (0.641)	-3.152*** (0.641)
LIQID	-0.0563* (0.0290)	-0.155*** (0.0276)	-0.132*** (0.0266)	-0.0563* (0.0309)	-0.264*** (0.0749)	-0.402*** (0.0766)	-0.364*** (0.0726)	-0.264*** (0.0577)
LVRG	-19.54*** (0.396)	-26.64*** (0.606)	-23.19*** (0.503)	-19.54*** (1.585)	-4.920*** (1.021)	-18.07*** (1.678)	-10.59*** (1.331)	-4.920 (3.019)
TANG	-10.92*** (0.369)	-13.56*** (0.721)	-12.84*** (0.541)	-10.92*** (1.033)	-27.89*** (0.951)	-30.24*** (1.998)	-30.11*** (1.406)	-27.89*** (2.538)
Constant	40.20*** (0.810)	29.54*** (1.418)	37.32*** (1.078)	40.20*** (1.697)	67.42*** (2.089)	42.58*** (3.929)	61.20*** (2.826)	67.42*** (3.388)
R-squared	0.268	0.184	0.176	0.268	0.145	0.033	0.027	0.145
F-test all $\alpha_i = 0$		33.49***				17.52***		
Hausman test			185.88***				102.64***	
Pesaran CD test		55.62***				55.82***		
Wooldridge (F-test)		221.07***				171.70***		
Breusch-Pagan LM $\chi^2$			9,789.91***				7,221.02***	
Observations	11,456	11,456	11,456	11,456	11,456	11,456	11,456	11,456
Number of groups		1,432	1,432	1,432		1,432	1,432	1,432

Source: Author's estimations

\*\*\*, \*\*, and \* show significance at 1%, 5% and 10% level of significance, respectively

Robust standard errors in parentheses

Table 2. Results of regression analysis - board independence

VARIABLES	ROA				ROE			
	(1) OLS	(2) FE	(3) RE	(4) PCSE	(5) OLS	(6) FE	(7) RE	(8) PCSE
BRD.IND	1.467*** (0.185)		2.547*** (0.383)	1.467*** (0.212)	3.068*** (0.478)		4.805*** (0.933)	3.068*** (0.528)
SIZE	-1.330*** (0.0701)	1.057*** (0.170)	-0.452*** (0.112)	-1.330*** (0.176)	-2.591*** (0.181)	2.118*** (0.470)	-1.187*** (0.287)	-2.591*** (0.364)
AGE	-1.803*** (0.180)	-4.401*** (0.325)	-2.598*** (0.248)	-1.803*** (0.300)	-3.693*** (0.465)	-8.335*** (0.899)	-4.708*** (0.650)	-3.693*** (0.633)
LIQID	-0.0634** (0.0290)	-0.155*** (0.0276)	-0.135*** (0.0266)	-0.0634** (0.0299)	-0.275*** (0.0748)	-0.402*** (0.0766)	-0.371*** (0.0725)	-0.275*** (0.0592)

LVRG	-19.69*** (0.397)	-26.64*** (0.606)	-23.28*** (0.503)	-19.69*** (1.585)	-5.294*** (1.022)	-18.07*** (1.678)	-10.85*** (1.332)	-5.294* (3.030)
TANG	-11.36*** (0.367)	-13.56*** (0.721)	-13.28*** (0.536)	-11.36*** (1.113)	-28.65*** (0.946)	-30.24*** (1.998)	-30.94*** (1.394)	-28.65*** (2.715)
Constant	40.04*** (0.808)	29.54*** (1.418)	36.24*** (1.113)	40.04*** (1.702)	66.20*** (2.083)	42.58*** (3.929)	59.00*** (2.902)	66.20*** (3.317)
R-squared	0.268	0.184	0.177	0.268	0.147	0.033	0.027	0.147
F-test all $\alpha_i = 0$		33.49				17.52***		
Hausman test			178.98***				97.08***	
Pesaran CD test		55.62***				55.82***		
Wooldridge (F-test)		221.07***				3.37*		
Breusch-Pagan LM			9,783.02***				7,194.70***	
$\chi^2$								
Observations	11,456	11,456	11,456	11,456	11,456	11,456	11,456	11,456
Number of groups		1,432	1,432	1,432		1,432	1,432	1,432

Source: Author's estimations

\*\*\*, \*\*, and \* show significance at 1%, 5% and 10% level of significance, respectively

Robust standard errors in parentheses

Analyzing the results synthesized in columns (4) and (8) of Table 1, it can be stated that there is a negative relationship between the size of the board of directors and the financial performance of the companies, the coefficient being statistically significant considering both forms of performance representation of companies (ROA and ROE indicators). A similar result has also been obtained by Bonn et al. (2004), Bozec (2005), Wintoki (2007), Cheng et al. (2008), Guo & Kga (2012), Kumar & Singh (2013), etc.

The negative relationship between the two variables can be explained by referring to the existence and applicability of a "law" that could ensure that an effective control system is implemented in companies at a high level. In this respect, there is no national code of corporate governance in Romania, the relevant legal framework being dispersed in various laws. However, the principles of good corporate governance appear in the country, from a conceptual and regulatory point of view, only in the early 2000s, being adopted for the first time by the Bucharest Stock Exchange (BSE). As this attempt failed, in 2008, the Bucharest Stock Exchange adopted a new Corporate Governance Code, based on the principles set out by the Organization for Economic Cooperation and Development (OECD). The Code has entered into force since 2009 and is applied on a voluntary basis by companies traded on the stock market. The Corporate Governance Code of the Bucharest Stock Exchange (2008) contains 11 pillars which, through the principles outlined, are paying special attention to the structure and functions that a board of directors must fulfill, as well as its competencies and responsibilities. The most important article dealing with these elements is Article 3 - The structure of the board of directors.

In Romania, the introduction of corporate governance principles in order to increase the economic and financial performance of companies is recent. Moreover, in parallel with the delayed regulation and implementation of the core elements of the corporate governance code, the Romanian economy has gone through several difficult steps in the political, economic, legal and social reforms.

Regarding the results summarized in columns (4) and (8) of Table 2, it can be argued that there is a positive relationship between the independence of the board of directors and the financial performance of the companies, the coefficient being also significant from statistical point of view, considering both performance indicators (ROA and ROE). A similar result was also obtained by Muth and Donaldson (1998), Bhagat and Black (2002), Abdelsalam, Masry and Elsegini (2008), De Andres and Vallelado (2008), Arora and Sharma (2016), etc.

The main role of the board of directors is to mitigate conflicts that arise in companies due to the separation of control and property (Fama and Jensen, 1983). In this context, the results show that the independence of the board of directors positively influences the financial performance of companies in the sense that agent mitigation, company activity monitoring and decision-making are more effective when are done by external managers. Given that the relationship is statistically significant, it can be explained by referring to the existence or absence of a corporate governance code and its applicability. In line with the previous explanations, it can be point out that in Romania, with the adoption of the first forms of the Corporate Governance Code of the Bucharest Stock Exchange in 2001, the observance and applicability of the principles stated by it was purely optional and addressed in the most part to the companies listed on the stock exchange. The most important article dealing with these elements is also Article 3 - The structure of the board of directors.

Considering the control variables, it can be concluded that the most of them are statistically significant at 1%. Thus, all of the control variables considered have a negativ impact on the company's financial performance.

**Conclusions.** The ownership structure can influence the performance of companies in many ways. The differences in the identity of the shareholders, the unequal distribution of resources among shareholders, or the characteristics of the board of directors influence their power and ability to control managers. Moreover, the wide range of shareholders and managers' objectives can influence the performance of the company in different ways.

In the literature, there are numerous studies conducted on the association between the board of directors and the financial performance of the companies. However, the results obtained do not clearly identify the relationship established between these variables. The identified results differ significantly when referring to the studies conducted in the developed countries over the developing ones. In this respect, it cannot be considered that there is any certainty that the results obtained either in developed countries with mature capital markets or in less developed countries (especially those in Asia) have a high

degree of credibility for developed economies from Western Europe and for developing countries in Central and Eastern Europe.

The results of the studies conducted in relation to the effects of the board's characteristics on the financial performance of the companies can be supported by two main points. First of all, the results obtained for the Romanian economy are generally in line with those obtained from other emerging countries in Europe. These can be explained referring to the deficiencies on several levels (legislative context, privatization process, informational asymmetry, social, cultural, political or economic structures) as a result of the domination of the communist system, which prevented the formation of a proper framework for development of the corporate environment. All these deficiencies have significantly affected the relationship established between the characteristics of the board of directors and the financial performance of the Romanian companies.

Faced with the new social principles emerging after the post-december period and developed in recent years, Romania and other developing countries in Europe have had to adapt to the new changes and create a favorable environment to attract foreign investors to contribute to its development. Second, as a result of this, Romania adopted the concept of corporate governance only since 2008, with the adoption of the the Corporate Governance Code of the Bucharest Stock Exchange. In this respect, the introduction of corporate governance principles has been achieved late, but Romanian companies have succeeded in adopting the concept of corporate good practices. Moreover, the new Corporate Governance Code of the Bucharest Stock Exchange, implemented since January 2016, will bring improvements in the adoption of these good practices.

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