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Board characteristics and firm performances in emerging economies. Lessons from Romania

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ABSTRACT

This study investigates correlations between board characteristics and firm performances. For this purpose, six board characteristics were chosen: (1) equilibrium between non-executive and executive members of the board of directors; (2) independence of board members; (3) selection of board members by the assistant role of the Nomination Committee; (4) training the members' competences; (5) remuneration policy of board members by the assistant role of the Remuneration Committee; (6) improuving the accountability and transparency of financial information by the assistant role of the Audit Committee. The financial performances are represented by Return on assets (ROA) and Tobin's Q. The present study sample consists of 55 Romanian non-financial companies which are listed on the Bucharest Stock Exchange (BSE) in 2012. We found the following characteristics in the majority of boards of directors: equilibrium between non-executive and executive members, independence of the members and concerns on training competences. On the other hand, the majority of companies do not have, within their governance system, advisory committees (such as Nomination, Remuneration or Audit Committees), which are meant to help the board in its decision-making. No statistically significant association was found between any of the board characteristics and performances represented either by Tobin's Q or ROA, but the findings are in line with numerous studies conducted in developing countries and may be explained by various shortcomings which characterise the lagging of transition economies.

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1. Introduction

Romania is one of the emerging European countries which belong to the former communist bloc, together with Poland, the Czech Republic, Slovakia, Croatia, Bulgaria, Hungary and Germany. In 1989, changes occurred in Eastern Europe which mark the exit of these countries from communism. This period marked the recovery of these countries from a major setback, as compared to other democratic countries in Europe. Since 1989, Romania has faced a complex process of internal transformation, in order to achieve a functioning market

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economy. Her accession to the European Union on 1 January 2007 required a restructuring of the economy from its roots, including the adoption of good corporate practice stipulated in the 2006/46/EC Directive, which mentions the obligation of companies operating in the EU space to report a 'corporate governance statement' (statement of conformity to 2006/46/EC Directive), the so-called 'Comply or Explain Statement'.

In Romania, the principles of good corporate governance were first adopted by the Bucharest Stock Exchange (BSE) in 2001, as the first Corporate Governance Code of the Bucharest Stock Exchange (CGC of BSE). The attempt failed because only one company adopted the code. Thus, in Romania, corporate governance could be talked about only from 2008 when BSE adopted a second CGC, which is based on the OECD principles of corporate governance which is more consistent. The code came into existence in the financial year 2009 and it was voluntarily adopted by the companies trading in the regulated market operated by BSE. The companies that decide to entirely or partially adopt the code have the obligation to annually submit to BSE a statement of compliance or non-compliance with the CGC's provisions (the 'Comply or Explain Statement'), stating recommendations that were effectively implemented as well as the method of implementation.

The corporate governance framework should set out the respective functions of the board and their powers and responsibilities (OECD, 1999, 2004; Wirtz, 2011). Among the board's important features with direct implications of successful corporate governance, the following can be mentioned: board duality, board size, board diversity, equilibrium between non-executive and executive members of the board of directors, independence of board members, selection and training of board members, the role of advisory committees such as Nomination, Remuneration or Audit Committees in the company's governance, etc.

CGC of BSE (2008) based on 11 corporate governance regulatory pillars, such as: Article 1 – Corporate governance framework; Article 2 – The shareholders and other financial instruments holders' rights; Article 3 – The role and duties of the board; Article 4 – Composition of the Board; Article 5 – Appointment of Directors; Article 6 – Remuneration of directors; Article 7 – Transparency, financial reporting, internal control and risk management; Article 8: Conflicts of interests and related parties' transactions; Article 9 – Treatment of corporate information; Article 10 – Corporate social responsibility; and Article 11 – Management and control systems. This code is similar to those adopted by other European Union member states and, as can be seen from the structure above, it provides great attention to the functions of board directors as well as their powers and responsibilities. Since January 2016, a new CGC of BSE has come into force for the companies listed on the main market, but the results of applying it in practice will only be known in the future. The ultimate declarative goal of the CGC of BSE is to improve confidence in the listed companies by promoting positive developments in the corporate governance of these companies.

In Romania, since the principles of CGC were applied (1 January 2009), very few studies have investigated the relationship between board characteristics and financial performances (e.g., Gavrea, Stegerean, & Marin, 2012; Moscu, 2013). Moreover, as far as the authors can ascertain, no studies have used such a data source of 'Comply or Explain Statements' for this purpose.

Thus, the main research goal is to fill such a gap in literature by analysing the relationship between some board characteristics provided by the 'Comply or Explain Statement' (such as equilibrium between non-executive and executive members of the board of directors, independence of board members, selection of board members, training the members' competences, the assistant role of the board provided by Nomination, Remuneration and Audit Committees) and financial performances of the Romanian listed companies.

The remaining part of the article is organised as follows: In section 2, the theoretical considerations were designed, according to which the main working hypotheses are stated. In section 3, the methodology and data sources were designed. Section 4 highlights the results and discussions of the main empirical findings. Finally, the article ends with the main conclusions and limits which could be the basis for future studies in this area of research.

2. Literature review and hypotheses development

Adopting CGCs in emerging countries increases the interest in studying the impact of good corporate governance on business performance, in the context of social, economic and political factors which differ from those in developed countries (Mahadeo, Soobaroyen, & Hanuman, 2012).

From the perspective of the agency theory, effective corporate governance must harmonise the conflict of interests between shareholders and managers. As noted by Wirtz (2011), the board of directors is one of the governance mechanisms that has received the most attention in governance research. Therefore, various features related to board structure and board composition are considered in many studies as the main characteristics of an effective corporate governance being able to boost business performances (Al-Matari et al., 2012; Achim & Borlea, 2013; Achim, Borlea, & Mare, 2016; Bathula, 2008; Brick, Palmon, & Wald, 2006; Brown, 2007; Fallatah & Dickins, 2012; Fama & Jensen, 1983; Frederick, 2011; Hsu & Wu, 2014; Mahadeo et al., 2012; Rad, Locke, & Reddy, 2012; Sonnenfeld, 2002; Tariq, 2010; van Essen, van Oosterhout, & Carney, 2012).

2.1. Equilibrium between non-executive and executive members of the board of directors and firm performance

The principle of separating the management from ownership, on which the agency theory is based, is provided by OECD principles, as well as other CGCs in various countries. Hence, it was stipulated that members of the board of directors should not overlap with those of the executives, and the board of directors should include non-executive directors of a sufficient number and calibre, in order to give them significant weight in the board's decisions. Therefore, the existence of equilibrium between executive and non-executive directors in the board of directors is necessary, so that 'no person or group of persons can dominate the board's decision taking' (Art. 4. Composition of the Board, Principle VI, CGC of Bucharest Stock Exchange, 2008, p. 8).

According to the agency theory, the presence of non-executive directors is seen as leading to better governance of the company because it would meet the supreme interests of the owners (shareholders) (Fama, 1980). Consequently, the duality role, where the chief executive officer (CEO) or managing director is also the chair of the board, represents a threat to a successful corporate governance.

Many other studies have highlighted the fact that non-duality leads to better performance (Fama & Jensen, 1983) and later Alexander, Fennell, and Halpern (1993) pointed out that CEO duality is a main factor which influences the company's value.

According to the above arguments, we intend to test the following hypothesis:

Hypothesis 1. *Equilibrium between non-executive and executive members of the board of directors positively influences firm performance.*

2.2. Independence of board members and firm performance

Independence of board members requires that:

> … an adequate number of non-executive directors shall be independent, in the sense that, they do not maintain, nor have recently maintained (directly or indirectly) any business relationships with the issuer or persons linked to the issuer, of such a significance as to influence their autonomous judgement. Renunciation to a term, by an independent director, shall be accompanied by an extensive, detailed statement regarding the reasons for such action. (Art. 4. Composition of the Board, Principle VII, CGC of BSE, 2008, p. 8)

Independence of board members can also be identified by the percentage of outside directors on the board. According to Cadbury's (1992) report and the OECD Principles of Corporate Governance (1999), independence of board members is considered a board of directors main feature.

The inside directors, as part of a company's structure, have a better knowledge of the business and may provide useful company information while outside directors play a role of control over managerial decisions through skills, knowledge expertise and objectivity, to reduce the agency's costs and to protect shareholders' interest (Farinha, 2003).

Numerous studies have demonstrated a direct correlation between higher board members' independence (reflected by the higher percentage of outsiders/independent directors) and higher business performance (Black et al., 2015; Kyereboah-Coleman & Biekpe, 2006).

Based on the above, the following hypotheses are formulated:

Hypothesis 2. *Independence of board members positively influences firm performance.*

2.3. Training the competences of board members and firm performance

In the literature, there are various studies documenting the importance of board members' skills in executing a successful business. A clear part of the literature (Gouiaa & Zéghal, 2013; Johl, Kaur, & Cooper, 2015; Yusoff & Amrstrong, 2012) distinctly considered that 'directors' competencies,' 'qualified and experienced directors' or 'directors accounting expertise' are 'board characteristics' and investigated their relationship with financial performance. In order to highlight the complexity of skills that board members must have, Hillman and Dalziel (2003) introduced the notion of 'board capital' which includes both human capital (experience, expertise and reputation) and relational capital (network of ties to other firms and external contingencies). However, in the context of the present study, the views of those who considered these skills as 'board characteristics' were shared, even though in the opinion of the authors of the present work, the two concepts are interchangeable.

In substantiation of Cadbury's (1992) report in the UK, a study ordered by the UK government highlighted some competencies that UK directors must have, namely: integrity, listening skills, motivation of others, motivation, resilience, persuasiveness, decisiveness, determination, sensitivity and energy. Conducting a review of the literature on the role of the board of directors' competencies in the smooth running of the business, Carter and Lorsch

(2004) concluded that managers who have varied skills in business will better understand the business environment and therefore will be able to exploit market opportunities. Directors should also possess skills specific to the company's domain of activity.

Investigating the importance of board development practices in 713 US non-profit governance, Brown (2007) showed that board development practices of recruitment and training are relevant to ensure high skills for the board members and these will lead to higher performance of the company in the future.

Furthermore, in his study, Yermack (2006) concluded that specific skills such as accounting and finance are required for board members in US companies and empirically found that share price reactions are sensitive to variables such as a 'director's occupation and professional qualifications'.

For New Zealand, Rad et al. (2012) investigated whether companies that have directors who are professional members of the Institute of Directors (IOD) perform better than companies that lack such directors. Their study revealed that the more educated and professional the board members are, the more positively the business performance is affected. A broad study by Gouiaa and Zéghal (2013) conducted for Canadian firms, empirically shows that some board characteristics such as 'qualified and experienced directors' tend to reduce the average cost of capital.

In order to find the 'effective board characteristics' in Malaysia, Yusoff and Amrstrong (2012) conducted a survey based on a qualitative approach involving two stages of the Delphi Technique. They found that financial competencies received the highest responses, followed by corporate planning, business forecasting, legal, risk management, marketing, human resource and international business. Similarly, for Malaysia, Johl et al. (2015) considered 'directors' accounting expertise' to be among the board characteristics and, in their study conducted in Malaysia for 700 public listed firms for the year 2009, they found that board accounting/financial expertise are positively associated with firm performance (expressed by ROA).

Going further with the studies conducting in emerging countries in this field, some interesting findings (Wu, 2013; Yang, 2009) were obtained for Taiwan. Here, in order to encourage 'continuous learning and training competences' of directors and achieve board effectiveness, Taiwan Securities Exchange Corporation (TSEC) required a newly recruited director of TSEC listed companies to take a 12-hour training courses during the year of recruitment and a 3-hour course the following year and later during their tenure. Under this context, Yang (2009) investigated the relationship between board training hours and financial performance (measured by ROA, Return on Equity (ROE) and Earning per share (EPS)) in Taiwan, but he did not find any significant relationship in the year 2008. However, a bit later, the empirical results of Wu (2013) showed that board training has a significant positive impact on the accounting-based measures of ROA, ROE and no significant effect on the market-based measures of Tobin's Q and stock returns.

In Romania, the CGC of the BSE (2008) refers to the need to ensure the highest level of competence for board members and shows that 'board members should continuously update skills and improve their knowledge of the company's activities as well as the corporate governance best practices, in order to fulfil their leading role' (Art. 4. Composition of the Board, Rec. 17, CGC of BSE, 2008, p. 9).

The above investigation intended to find whether the board training may lead to increase in financial performances and the following working hypothesis were stated:

Hypothesis 3. *The training of board members positively influences firm performance.*

2.4. Selection of the board members and firm performance

Numerous studies have investigated the importance of the selection of board members to ensure high performance of the board (Brown, 2007; Frederick, 2011; Herman, Renz, & Heimovics, 1997; Makhlouf, Binti Laili, & Ali, 2014). In the OECD, corporate governance working papers, Frederick (2011) highlighted that there is no foolproof technique in the nomination process, but a key factor in increasing the quality of the process is to have clear procedures. He also pointed out that an independent nomination process boosts performance of the board, even in the case of state-owned companies.

Various studies documented the main role of an independent Nomination Committee in assuring an efficient and independent selection process (Brown, 2007; Frederick, 2011; Herman et al., 1997; Makhlouf et al., 2014). Nomination Committees serve as an unbiased mechanism to select potential applicants. In addition, it is important for the CEO not to be a member of the Nomination Committee (Brown, 2007). For 713 US non-profit organisations, Brown (2007) found that a strong positive correlation between recruitment practices and perception of board members' competency is a significant predictor of board performance. Reporting on developing countries, in Jordan, Makhlouf et al. (2014) considered among the board of director's characteristics, the 'existence of nominations and compensation committee' and theorised a relationship between them and firms' performance, in the industrial companies listed on the Amman Stock Exchange.

OECD corporate governance principles require that for a rigorous and transparent recruitment, the board of directors will evaluate whether it is possible to compile a Nomination Committee consisting of its members and of independent directors. The Nomination Committee will coordinate the process of board members' appointment and recommend the board to propose candidates for the leading position. To ensure high-level competence for board members, an important role is played by the selection process of the board members. The selection of board members is a prerequisite to ensure effective board structure. According to the BSE Code (2008), 'the appointment of directors should be a formal, rigorous and transparent procedure. Such procedure will establish objective criteria and ensure regular adequate information on the personal and professional qualification of the candidates' (Art. 5 Appointment of directors, Principle IX and X, CGC of Bucharest Stock Exchange, 2008, p. 9). Establishment of a Nomination Committee consisting of independent members is representative of an adequate remuneration policy (Brown, 2007).

Following the study of Makhlouf et al. (2014) and the literature review on the relationship between the appointment of directors and firm performance, the following working hypothesis is stated:

Hypothesis 4. *The existence of nomination committee positively influences the firm performance.*

2.5. Remuneration policy and firm performance

The remuneration policy of both directors and executive managers has an influence on the managers and directors' interest in the company's activity. The conflict of interests determined by the separation between ownership and control (on which the agency theory is based) can lead to managers (agents) adopting an opportunistic behaviour that does not necessarily agree with the shareholders' interests (as principals) of wealth maximisation. Thus, managers are inclined to moral hazard and opportunistic behaviour guided by their own interests.

In the literature, the agency theory developed by Jensen and Meckling (1976) was analysed from two perspectives: Firstly, the research conducted to determine the relationship between executive managers' compensation and company performance, revealed that there is indeed a positive relationship between the two of them (Brick et al., 2006; Ozkan, 2007). Secondly, several studies conducted in order to assess the effects that bonuses have on the managers' behaviour showed that the share-based bonuses stimulated excessive risk-taking in the banking sector, representing a possible factor that provoked the financial crisis in 2008 (Bebchuk & Spamann, 2010).

To find solutions to this conflict, the OECD regulations (2004) on corporate governance, referred to the remuneration of board members: 'An entity shall disclose the remuneration policy for directors and managers as well as information on board members, including their qualifications, and selection process.' Consequently, CGCs introduced major sections designed to regulate remuneration and other benefits granted to directors and managers. The role of the Remuneration Committee is also well-stated.

The CGC of BSE (2008) also has similar provisions, showing that the company 'will secure the services of good quality directors and executive managers by means of a suitable remuneration policy that is compatible with the long-term interests of the company'. In this regard, the board of directors will establish a Remuneration Committee, consisting of its members, to develop a remuneration policy for directors and managers which will establish internal rules. The Remuneration Committee 'shall be exclusively composed of non-executive directors and will have a sufficient number of independent directors' (Art. 6 Remuneration of directors, Principle XI, Rec. 22. CGC of Bucharest Stock Exchange, 2008, p. 10).

The existence of an independent Remuneration Committee is meant to mitigate conflicts between shareholders and managers and to establish the best remuneration package for the director to improve the firm performances. Various studies document the main role of the Remuneration Committee and found a positive relationship between this and firm performances (Carter & Zamora, 2008; Kato, Kim, & Lee, 2007; Lee, Lev, & Yeo, 2008; Makhlouf et al., 2014). Thus, Carter and Zamora (2008) provided empirical findings on the effects of the role of remuneration policy and the vote in remuneration committee in setting pay packages for directors, in order to get the best financial performances. Kato et al. (2007) found a positive relationship between cash compensation of executives and Korea stock market performance. Lee et al. (2008) reported that the dispersion of directors compensation is positively associated with the firm performances which is reflected by Tobin's Q. Müller (2014), in his survey conducted on sample companies listed in the London Stock Exchange for 2010–2011, found a significant relationship between some 'board compensation characteristics' such as non-executive directors' basic fee, fees paid in shares and additional remuneration for board committee, and firm performances of ROA. In Jordan, Makhlouf et al. (2014) considered among the board of director's characteristics, the 'existence of nominations and compensation committee' and theorised a relationship between them and firms' performance of industrial companies listed in the Amman Stock Exchange. In the same view, Waithaka, Gakure, and Wanjau (2013) considered some variables such as 'directors' remuneration' together with the 'existence of board committees' to be among the 'board characteristics' variables in their study which investigated the relationship between board characteristics and performances in Kenya.

In the context of the present study and based on the review of literature in the field, the directors' remuneration may be considered as a board characteristics, to formulate the following working hypothesis:

Hypothesis 5. *The existence of Remuneration Committee positively influences the firm performance.*

2.6. Audit committee and firm performances

The Cadbury (1992) report outlines the role of an Audit Committee as an additional mechanism in safeguarding shareholders' interests, in order to improve the accountability and transparency of financial information and internal control function (Hsu & Wu, 2014). According to the OECD principles of corporate governance, taken over by the BSE Code, the corporate governance framework must ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial statement, performance, ownership and governance of the company. In order to achieve this, the board should establish an audit committee, from among its members, to assist in the discharge of its responsibilities in the areas of financial reporting, internal control and risk management. The audit committee should be composed exclusively of non-executive directors and should contain a sufficient number of independent directors (Art. 7 Transparency, financial reporting, internal control and risk management, Principle XII, Rec. 27–29. CGC of Bucharest Stock Exchange, 2008, p. 11).

Further, the following hypothesis will be examined:

Hypothesis 6. *The existence of Audit Committee positively influences firm performance.*

3. Methodology and data

3.1. Sample

In determining the sample companies of the present study, the authors started from large companies publicly trading on BSE at the end of 2013 and then removed the unlisted companies, the financial institutions (banks) and foreign companies listed on BSE. The final sample consisted of 64 large non-financial Romanian companies listed on BSE, at the end of 2013. Data was gathered from the 2012 financial reports, available both on the companies' websites and the BSE (www.bvb.ro). Board characteristics were provided by the 'Comply or Explain Statement' for the year 2012. Public companies voluntarily reported this statement to BSE in the first part of the following year together with the financial statements (in the present study, in the first part of 2013). Consequently, the valid sample was reduced to 55 publicly-traded Romanian companies which voluntarily reported a 'Comply or Explain Statement'.

The BSE adopted a new CGC based on the OECD principles of corporate governance in 2008, so, both corporate governance practices and the 'Comply or Explain Statement' are relatively new in Romania. Choosing the year 2012 for analysis was justified by the fact that it revealed the most recent data (relating to the moment of this research) and, based on this, it encompassed the highest probability for corporate governance principles to be incorporated in their actions by Romanian companies, bearing in mind that this concept is relatively new in Romania.

3.2. Variables

The six hypotheses were assessed and tested, having in mind that all the six characteristics (such as equilibrium between non-executive and executive members of the board of directors; independence of board members; selection of board members by the assistant role of the Nomination Committee; training the members' competences; remuneration of board members by the assistant role of the Remuneration Committee; improuving the accountability and transparency of financial information by the assistant role of the Audit Committee) were easily collected from the 'Comply or Explain Statements' which were voluntarily reported by the sample companies. In order to test these hypotheses, the relationships between the six board characteristics as independent variables and firm performance (ROA and Tobin's Q) as the dependent variables were investigated. Two control variables (firm size and leverage), as we refer below, were also used.

* Independent variables – board characteristics

Equilibrium between executive and non-executive members (EQUIL)

Information regarding the equilibrium between executive and non-executive members (EQUIL) was obtained from the answer given by the company to the following question in the 'Comply or Explain Statement': 'Does the structure of the Board of Directors of the company provide a balance between the executive and nonexecutive members (and especially independent nonexecutive directors) so that no person or group of persons may dominate the decision-making process of the board of directors?'. There are two possible answers – YES or NO. If NO, the company would have to explain the causes of such deviation. Thus, the value of the dummy variable is 1 if the answer is YES and 0, if it is NO.

Independence of board members (INDEP)

In the 'Comply or Explain Statement', companies have to answer YES or NO to the question: 'Does the structure of the board of directors provide a sufficient number of independent members?' The value of dummy INDEP is 1 if the answer is YES and 0 if it is NO.

Training the competences of board members (TRAIN)

In the 'Comply or Explain Statement', companies have to answer YES or NO to the question: 'Do the board director members permanently improve their knowledge through training/ formation in corporate governance?' So, the value of dummy TRAIN is 1 if the answer is YES and 0, if it is NO.

Nomination Committee (NOM)

Establishment of a Nomination Committee (NOM) consisting of independent members is representative of an adequate remuneration policy. In the 'Comply or Explain Statement', companies have to answer YES or NO to: 'Is there a Nomination Committee within the company'? The value of dummy NOM is 1 if the answer is YES and 0, if it is NO.

Remuneration Committee (REM)

Companies have to answer the following question in the 'Comply or Explain Statement':

'Is there a Remuneration Committee consisting exclusively of non- executive directors?' And the answer can be YES or NO, if NO, they must explain the causes of deviations. So, the value of dummy REM is 1 if the answer is YES and 0, if it is NO.

Audit Committee (AUDIT)

Information regarding the existence and composition of an Audit Committee (AUDIT) are obtained from the answer reported in the Comply or Explain Statement: 'Is there an Audit Committee consisting of non-executive directors and is there a sufficient number of independent directors?' Again, a YES/NO answer, if NO, explain. The value of dummy AUDIT is 1 if the answer is YES and 0, if it is NO.

*Dependent variable – company performances such as ROA and Tobin's Q

Assessing the impact of board characteristics on the company's performances is conditioned by the choice of the best indicators of business performance. The field's literature divides them into two main groups: accounting-based measures and market-based measures. The first group reflects the operational performances of a company and comprises indicators like: liquidity, solvency, gearing, activity and profitability. The latter group incorporates investors' perception on the market and is reflected by indicators such as: market capitalisation, price-to-earnings ratio, price to book ratio and Tobin's Q.

Of course, each of the two categories has both advantages and multiple criticisms. Considering the advantages of each group of measures, both accounting and market based indicators will be used hereinafter for evaluating firm's performance. Return on assets will be used for the operational performances of the company, while Tobin's Q will be used for the market ones. Return on assets (ROA) was calculated as net result on total assets and Tobin's Q as market capitalisation plus book value of debt on book value of assets. Using ROA and Tobin's Q for such purpose may lead to different results (Rad et al., 2012). This is explained by the particular features of each indicator.

* Control variables

Firm size (SIZE) and leverage (LEV) were included in the present study as control variables in the process of investigating the relations between board characteristics and firm performances. Firm size (SIZE) is often used on this position in the analysis by a great number of studies assessing the relationship between corporate governance and firm performance

(Bathula, 2008; Tariq, 2010; Al-Matari et al., 2012; Rechman & Ali Shah, 2013). This variable is computed as the natural log of total assets.

In this regard, the second control variable, Leverage (LEV), was found on this position in several studies dealing with the relationship between performance and various features of corporate governance (Hsu & Wu, 2014; Rechman & Ali Shah, 2013). According to Stiglitz (1985), leverage is positively associated with firm performance. It is defined as the ratio of book value of total debt to book value of total assets (Rechman & Ali Shah, 2013).

3.3. Methodology

As seen from the above, the dependent and the control variables are scale. The explanatory variables are all binary, constructed as dummy variables.

Apart from the descriptive methods used to assess the features of the variables, this research is based on evaluating correlations and interdependences that exist between these variables. For this, the correlation analysis based on Pearson's coefficient was employed for the scale variables and the ANOVA analysis of variances was employed for the dummy versus scale variables. The authors investigated whether the board characteristic influenced the performance of Romanian companies, bearing in mind that issues of corporate governance were introduced on the Romanian market only few years ago. At the end, multiple linear regression analysis was employed to evaluate the overall effect of the explanatory variables used. Classical econometric procedures were applied to generate and validate results.

4. Results and discussion

4.1. Descriptive statistics

The first way of reflecting the level of adoption of best corporate practice principles by companies in Romania consists of the board of directors' concerns to prepare and report a 'Comply or Explain Statement' to BSE.

According to the results from 2012, nine out of 64 companies did not report a 'Comply or Explain Statement'. Therefore, 85% of the companies chose to report such a statement of compliance to the principles of best practices in corporate governance.

Table 1 shows the degree of achievement of the *board members' characteristics* on: equilibrium between executive and non-executive members of the board of directors, members of the board of directors' independence, training the competences of board members, the existence and operation of the company's Nomination, Audit and Remuneration Committees which will assist the board of directors in taking the best decisions for the good of the company.

Table 1 shows that most sample companies have EQUIL, INDEP and also have concerns on TRAIN, while the majority of companies do not have NOM, AUDIT and REM, constituted under the independence provisions required by the code.

Table 1 reveals that for companies in the sample, there is a balance on the board's level between executive and non-executive directors (and in particular, independent non-executive directors) with 80% in such a manner that no individual or small group of people can dominate. The result supports the agent theory according to which the best management

Table 1. Descriptive statistics for the binary variables explanatory variables.

	EQUIL	INDEP	TRAIN	NOM	REM	AUDIT
Mode	1	1	1	0	0	0
Percent of the mode	80	61.8	87.3	69.1	61.8	56.4

Source: Authors' calculations using SPSS 19.0.

Table 2. Descriptive statistics for the scale variables.

		ROA	Tobin's Q	LEV	LN LEV	SIZE	LN SIZE
Mean		-0.008	0.8414	0.4946	-.6104	1.0835E9	19.0784
Median		0.0131	0.7851	0.4160	-.4573	1.5891E8	18.8839
Mode		-0.3082	0.1470	0.0210[a]	-3.86[a]	13093573.00[a]	16.39[a]
Std. Deviation		0.0988	0.3828	3.9062	1.2833	4.76646E9	1.43057
Skewness		-0.652	0.835	-2.375	-.085	7.297	1.175
Kurtosis		1.727	0.711	26.294	.587	55.825	2.578
Minimum		-0.3082	0.1470	-24.0630	-3.86	13093573.00	16.39
Maximum		0.2664	1.8540	17.1520	2.84	3.74E10	24.35
Percentiles	25	-0.0533	0.5867	0.1465	-1.4610	74581410.5000	18.1247
	50	0.0131	0.7851	0.4160	-0.4573	1.5891E8	18.8839
	75	0.0382	1.0352	1.0527	0.1706	3.5374E8	19.6837

[a]Multiple models exist. The smallest value is shown.
Source: Authors' calculations using SPSS 19.0.

of the company is provided by non-executive directors as they respond to the interest of shareholders (Fama, 1980).

A percent of 61.8% of the sample companies have independent members in theirs boards of directors. For comparison, the study conducted by Maier (2005) showed average percentages of the board's independence on a scale that ranged from 1.5% in Germany to 81.3% in Switzerland. In Saudi Arabia, 76% of Saudi listed firms' board members are independent (Fallatah & Dickins, 2012).

For 87.3% of the Romanian sample companies, the board of directors' members permanently improved their knowledge through trainings in order to get the best qualified, to ensure successful governance of the company. This high percentage highlights the major concerns of the Romanian leaders on improving their corporate governance knowledge over time.

The existence of Nomination Committees focusing on most companies in the sample does not ensure the functioning of such committees within the company. Therefore, about 69% of sample companies do not have a Nomination Committee, showing that only in 31% of the companies such a committee was found. According to the study of Albert-Roulhac and Breen (2005), an average of 71% of the European companies have a Nomination Committee, Romania being situated far below the European average.

A major percentage of companies (61.8%) do not have a Remuneration Committee and therefore, 38.2% have such a committee. At the European level, the average of the companies having a Remuneration Committee is 94% (Albert-Roulhac & Breen, 2005), which places Romania far below this level. For comparison, in Saudi Arabia, only 46% of companies have a Remuneration Committee (Fallatah & Dickins, 2012).

According to the study of Vitezić (2006), 80% of Croatian companies did not disclose information on remuneration. Similarly, the present finding for Romania also highlights

Table 3. ANOVA results – significance level coefficients (SIG.) – synthesis.

Exogenous variables	ROA	TOBIN'S Q
EQUIL	0.631	0.642
INDEP	0.123	0.324
TRAIN	0.896	0.929
NOM	0.204	0.775
AUDIT	0.544	0.858
REM	0.204	0.912

Source: Own calculations using SPSS 19.0.

the low level of adopting best corporate practice in the area of remuneration policy of emerging European countries.

In total, 56.4% of sample companies do not have an Audit Committee (composed exclusively of non-executive directors and having a sufficient number of independent directors) meaning that for 43.6% of sample companies, such a committee exists. According to Albert-Roulhac and Breen's (2005) study, approximately 94% of European companies have an Audit Committee. In Croatia, as an emerging European country, only 20% of the companies have an Audit Committee (Vitezić, 2006). When compared to European companies, the survey of Albert-Roulhac and Breen (2005) shows that the Audit Committee is not independent in 52% of them. In this case, it shows that Romania is below the European average. However, there is a significant evolution when compared to 2010, when, according to the study conducted by Feleaga et al. (2011), the percentage of companies listed on BSE, which do not ensure independence of the Audit Committee, was 80%.

The percentage of companies that have Audit Committees composed of non-executive and independent members varies from one country to another. Thus, the study conducted by Maier (2005) in 24 countries showed an average of 64.5% regarding the Audit Committee's independence, ranging from 4% in Japan to 95% in Canada, the US, Ireland, the UK, Luxembourg and the Netherlands. Surprisingly, in Saudi Arabia, a high percentage (93%) of the companies have an independent Audit Committee (Fallatah & Dickins, 2012).

As shown in Table 2, initial leverage and company size variables were skewed and with high kurtosis coefficients. Consequently, they were transformed using the natural logarithm. This method preserves the characteristics of data, while allowing use of the linear regression model. One can observe an important reduction in the skewness and kurtosis of the two variables. None of the two control variables is related to ROA. Pearson's correlation coefficient had significance values of 0.713 between ROA and leverage and 0.711 between ROA and the size of the company. Leverage is significantly correlated to firm performance when Tobin's Q is used as proxy. The coefficient of 0.353 shows a direct relationship which is significant at the 0.01 level (Significance = 0.005 < 0.01). The size of the company remains statistically unrelated to performance although the significant coefficient is much lower (0.126).

4.2. Empirical results and discussion

Maybe unsurprisingly, the ANOVA analysis revealed no significant influence of the explanatory variables on the performance of the sample companies, neither using ROA nor Tobin's Q. The results are summarised in Table 3. Consequently, none of the factors considered have an impact on the company's performance when taken individually. Their multivariate impact on a company's performance was also assessed. However, results in Tables 4 and 5 show

Table 4. Estimation results of the model with ROA as dependent variable.[a]

Model		Unstandardised coefficients B	Unstandardised coefficients Std. Error	Standardised coefficients Beta	T	Sig.
1	(Constant)	0.061	0.179		0.340	0.736
	EQUIL	0.065	0.042	0.343	1.553	0.130
	INDEP	**-0.064**	**0.034**	**-0.389**	**-1.907**	**0.065**
	TRAIN	0.021	0.040	0.093	0.533	0.597
	NOM	0.013	0.045	0.073	0.286	0.777
	AUDIT	0.010	0.032	0.061	0.312	0.757
	REM	-0.055	0.042	-0.334	-1.315	0.197
	Llev	-0.006	0.011	-0.090	-0.521	0.606
	Lsize	-0.003	0.009	-0.059	-0.367	0.716
	R^2			0.167		
	Adj. R^2			0.029		

[a]Dependent Variable: ROA.
Source: Own calculations using SPSS 19.0.

Table 5. Estimation results of the model with Tobin's Q, as dependent variable.[a]

Model		Unstandardised coefficients B	Unstandardised coefficients Std. Error	Standardised coefficients Beta	T	Sig.
1	(Constant)	0.410	0.729		0.563	0.577
	EQUIL	-0.006	0.171	-0.007	-0.033	0.974
	INDEP	-0.172	0.137	-0.253	-1.260	0.216
	TRAIN	-0.034	0.164	-0.035	-0.207	0.837
	NOM	-0.136	0.183	-0.188	-0.743	0.463
	AUDIT	0.109	0.129	0.161	0.843	0.405
	REM	-0.036	0.172	-0.053	-0.210	0.835
	Llev	0.072	0.043	0.282	1.663	0.105
	Lsize	0.030	0.036	0.132	0.830	0.412
	R^2			0.194		
	Adj. R^2			0.005		

[a]Dependent Variable: Tobin's Q.
Source: Own calculations using SPSS 19.0.

that only variable INDEP significantly influenced ROA, but only at the 10% significance level. None of the factors turned out to be significant in the case of Tobin's Q as dependent.

Consequently, none of the six hypotheses tested was accepted. In all the cases, the 2-tailed Sig was much higher than 0.05. It can thus be stated that for the Romanian companies listed on BSE, there is no significant influence of the selected features of board characteristics on the firm's performances, using neither ROA nor Tobin's Q.

However, the signs of the coefficients can be discussed. The correlation is positive between EQUIL, TRAIN, NOM, AUDIT and ROA as dependent. The variables INDEP and REM are negatively correlated with ROA. When switching to the Tobin's Q proxy, company's performance are only positively correlated with AUDIT. All other board characteristics have negative coefficients. Thus, AUDIT has positive coefficient regardless of how company's performance is measured.

All in all, the results emphasise that for Romanian companies, we cannot speak yet about a significant relationship between board characteristics and business performance. Additionally, the sign of the coefficients changes depending on the proxy used as dependent. Similar results have been obtained for different emerging markets, and will be presented further.

Regarding the correlation between *equilibrium non-executive and executive board members* (also called non-duality) and performance, no significant correlation was found but it was positive in relation to ROA and negative in relation to Tobin's Q. An important number of studies confirm the lack of relationship between duality or non-duality and company performances for emerging markets (Akpan & Amran, 2014 for Nigeria; Ehikioya, 2009; Moscu, 2013 for Romania; Peng, Buck, & Filatotchev, 2003 for Russia). For example, Peng et al. (2003) found little evidence of a positive relationship between the presence of non-executive board members and firm performance in a study conducted on a sample of 314 privately-owned Russian companies. Similar results for Romania are presented in Moscu (2013) on a sample of 62 non-financial companies trading on BSE in 2010. She also found an insignificant relationship between the number of non-executive members and corporate performance reflected by ROA and ROE. For Nigeria, the empirical study conducted by Akpan and Amran (2014) on 90 sample companies listed in the Nigerian Stock Exchange, shows that there is no relationship between board equity and company performance (measured by turnover).

When assessing *independence of directors,* results pointed out a negative but also insignificant relationship between this characteristic of board members and company's performance which is reflected by ROA and Tobin's Q. The results are in line with many findings of studies conducted on emerging countries (Korea – Choi & Hasan, 2005; Mauritius – Mahadeo et al., 2012; Asian emerging countries – Al-Matari et al., 2012; van Essen et al., 2012; Nigeria – Akpan & Amran, 2014). In Kuwait, for example, Al-Matari et al. (2012) found a negative but insignificant relationship between independence of board members and ROA. Similarly, for another emerging country such as Mauritius, Mahadeo et al. (2012) found that the proportion of independent directors negatively affects return on assets. For Asian emerging countries, van Essen et al. (2012) also found very limited evidence of a direct relationship between independence of directors and firm performances but additionally, they identified significant differences among countries with respect to the correlation between the two variables. Thus, for Korea and Taiwan, van Essen et al. (2012) empirically found that more independent boards are positively correlated to firm financial performance, while in countries such as China, Hong Kong, India and Thailand, no significant effect was found. For Nigeria, the study by Akpan and Amran (2014) also found no relationship between board independence and company performance (measured by turnover).

Inconsistent correlations were found when the influence of training in corporate governance on performances was assessed. Results show a positive but insignificant correlation between training in corporate governance and ROA and a negative and insignificant correlation between training in corporate governance and Tobin's Q. Going further, studies in the field which were conducted in emerging countries, found some mixed findings for Taiwan. Here, Yang (2009) investigated a relationship between board training hours and financial performance (measured by ROA, ROE and EPS), but did not find any significant relationships at that time (year 2008). However, several years later, Wu (2013) empirically found that board training has a significant positive impact on the accounting-based measures of ROA, ROE and no significant effect on the market-based measures of Tobin's Q and stock returns.

The coefficient for the relationship between the existence of a Nomination Committee and company's performance reveals a positive correlation with ROA and a negative correlation with Tobin's Q, but again, insignificant. Only 31% of the present study's sample has a Nomination Committee, leading to inconsistent results on the correlation involved. In contrast to the results of this study, consistent relationships between nomination process and ROA were found in developed countries by Brown (2007) and Frederick (2011). The latter shows that an independent nomination process boosts performances of the board even in the case of state-owned companies. For an emerging country, Jordan, Makhlouf et al. (2014) theorised a relationship between the existence of a nomination (and also a compensation) committee and firms' performance, but it was not empirically tested.

Concerning the correlation between existing a Remuneration Committee and firm performance, the relationship was also insignificant but negative when using both proxies of financial performances. Therefore, the existence of a Remuneration Committee does not necessarily lead to an increase in performance, but, on the contrary, may determine a drop. The inconsistent results of the present research are partially in accordance with various studies in agent theory field. Tosi et al. (2010) performed a meta-analytic review of the empirical literature on the determinants of CEO pay and found no inconsistent incidence of management remuneration on performance. These findings agree with those conducted for developed economies such as the US, the UK, Spain, Portugal and so on. For example, Ozkan (2007) found no significant relationship between firm performance and CEO compensation for a sample of large UK companies. In Portugal, Fernandes (2005) found no relationship between board remuneration and financial performances reflected by ROA and ROE. In Spain, Tariq (2010) obtained a negative but insignificant relationship between remuneration of board members and performances reflected by ROE. However, in Europe, for companies listed on the London Stock Exchange, Müller (2014) found some mixed results on the relationship between board compensation characteristics. He empirically found a significant relationship between non-executive directors' basic fee, fees paid in shares and additional remuneration for board committee membership but, the chair remuneration and the senior non-executive remuneration seem not to significantly influence company performance. For emerging markets like Kenya or Malaysia, weak or lack of relationship were found. For instance, in Kenya, Miyienda, Oirere, and Miyogo (2013) found a weak relationship between directors' remuneration and financial performances which is reflected by ROE and Tobin's Q and in Malaysia, Abdullah (2006) showed the lack of any association between the two variables, by using ROA. Therefore, it may be concluded that it has not yet been clearly demonstrated that a certain board remuneration may have better results, and the results of this study also confirm these findings.

When dealing with the existence of an Audit Committee (made up exclusively of non-executive administrators and having a sufficient number of independent ones), a positive but insignificant relationship was found (in both cases, ROA and Tobin's Q). In conclusion, for the sample companies, having an Audit Committee in order to assist the activity of the board of directors does not necessarily imply a significant increase in performance. Similarly, the findings are supported by that of Al-Matari et al. (2012) for the emerging market of Kuwait.

5. Conclusion

The present research focuses on identifying the relationships between various board characteristics and firm performances in the emerging market of Romania. Some board characteristics considered to be necessary for corporate governance efficiency were selected having in mind, the data sources provided by 'Comply or Explain Statement' such as: equilibrium between non-executive and executive members of the board of directors, independence of board members, selection and training of board members; the role played by Nomination, Remuneration and Audit Committees in the company's governance. The sample of the present study consists of 55 Romanian non-financial companies which publicly traded on BSE and the data source is represented by 'Comply or Explain Statement' for 2012.

The added value of this research, when compared with other Romanian researches in this field (Gavrea et al., 2012; Moscu, 2013) affects various areas. Firstly, some board characteristics which have not been analysed before in Romania, in relation to financial performances such as independence of board members, training the competences of board members, the assistant role the board provided by some committees such as Nomination, Remuneration and Audit Committees, were analysed.

Secondly, an original data source was used for these board characteristics, namely the 'Comply or Explain Statement'. Thirdly, another original value for Romania consists of being used as variables, measuring financial performances, a complex measure of financial performances, namely Tobin's Q. It is largely used in international literature (being both an internal and external measure of performances) but it has not been used in Romanian researches on the board characteristics and financial performances nexus.

The descriptive results of this study show that a large majority of companies, ranging between 61.8% and 87.3%, are characterised by an equilibrium between EQUIL, INDEP and concern with what is regarded as TRAIN. Contrarily, a majority of the companies, ranging between 56.4 and 69.1% does not constitute NOM, REM and AUDIT according to the code provisions (consisting exclusively of non-executive and independent members).

In addition, the average values of companies that have such committees are below the European average, emphasising delays in the process of adopting the good corporate governance practices in comparison with other European countries.

Further, the empirical results of the current study reveal no significant relationship between the six board characteristics chosen and financial performance for Romanian companies. None of the six working hypotheses was accepted, either with ROA or Tobin's Q. With regards to the direction of the relationship, the results are quite heterogeneous. They reflect either a positive or a negative relationship between the six board characteristics and financial performance (measured by ROA and Tobin's Q).

The results of the present study are the same with those of emerging economies relating to the inconsistent correlation between board characteristic and firm performances. Thus, lack of relationship between equilibrium non-executive board members are found in Russia (Peng et al., 2003), Nigeria (Ehikioya, 2009; Akpan & Amran, 2014) and Romania (Moscu, 2013). The independence of directors also had insignificant influence on financial performances in Korea (Choi & Hasan, 2005), Mauritius (Mahadeo et al., 2012), Nigeria (Akpan & Amran, 2014) and Asian emerging countries (Al-Matari et al., 2012; Vas Essen et al., 2012). Training in corporate governance seems not to have any influence on financial performances in Taiwan (Yang, 2009). Regarding nomination of board members for emerging Jordan, Makhlouf et al. (2014) only theorised a positive relationship between the existence of nomination (and also compensation) committee and financial performance but they are yet to be tested. Concerning directors' remuneration, for emerging markets like Kenya or Malaysia, a weak or lack of relationship was found (Abdullah, 2006; Miyienda et al., 2013). Finally, the existence of an *Audit Committee* to assist the activity of the board of directors does not necessarily imply a significant increase in performance in some emerging countries such as Kuwait (Al-Matari et al., 2012).

In order to show some explanations of such insignificant relationship between board characteristic and financial performance in the emerging countries, several findings were highlighted. For, instance, in Croatia, Vitezić (2006) pointed out that in the long post-communist period of 15 years, some positive changes were made in managing enterprises but argued that, the adoption of corporate governance principles increases business performances even though it is hard to measure the extent to which board contribute to increase in performance of the companies from emerging economies. He also argued that, despite the globalisation market, some factors such as economy development, knowledge, the sociological and cultural differences in emerging economies limit the comprehensive approach, especially when compared with developed economies.

In emerging Asian countries, van Essen et al. (2012) found a very limited evidence of a direct relationship between board attributes and firm financial performance, and finally concluded that 'good governance' prescriptions for the board of directors are not applied to Asian firms. For Mauritius, Mahadeo et al. (2012) also found both negative and positive impacts of board characteristics and financial performance. Regarding the small negative regression coefficient of the 'independent non-executive director' in relation with financial performance (ROA), they explained that such a concept is very recent and thus, the results may reflect initial adaptation of the companies within such new provisions required by the CGC. In Romania, Moscu (2013) explained inconsistent results on the relationship between some board characteristic (such as the number of non-executive members) and corporate performance by several other constraints such as lack or poor quality of information.

In the light of the studies mentioned above in the field of board characteristics nexus financial performances, the results of this study are supported by two main ideas. Firstly, the findings for Romania's economy are in line with those obtained for other emerging countries and they are explained by the shortcomings which characterise the lagging transition economies: legislation context, privatisation, ownership structure, poor quality of information, social, cultural, political and economic structures. All these shortcomings mostly affect the causal relationship between board characteristics and firm performances in the Romanian economy. Faced with the principles of new social era of capitalism, Romania like other emerging countries, have to adjust their behaviour in order to show the real drives of economy. Secondly, the concept of corporate governance is new in Romania; it has only really been adopted since 2008, once with the new code of corporate governance of BSE. Thus, Romanian companies have not yet had enough time to apply and practice the concept of corporate best practices. Moreover, the new CGC of BSE, which was implemented in January 2016, will bring furter improvements in the field of adopting best corporate practice in Romania. As the principles of corporate governance will be better known and adopted by the emerging economy of Romania, this will serve as an avenue for future studies.

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