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The Influence of Corporate Governance and Ownership Concentration on Company Performance - Evidence from Bucharest Stock Exchange

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A R T I C L E I N F O

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A B S T R A C T

The main purpose of this study was to explore whether the current corporate governance mechanisms have an impact on the company's performance in Romania. The importance of this study is given by the following reasons. Firstly, the study will contribute to the existing literature concerning corporate governance impact on firm performance of listed firms in Romania. Secondly, the result of this study will help interested parties to evaluate the level of compliance of recommendations made in the Corporate Governance Code. The study was conducted for the companies listed on BSE, in the first category. The financial companies and the credit institutions were excluded from the sample. The final sample included 15 companies. Return on Assets, Return on Equity and Return on Sales were used for measuring the performance of the firm. The corporate governance was measured with three variables: total numbers of board members, the percentage of independent members on the board and CEO duality. The ownership concentration was measured with the fraction of shares held by the largest top three shareholders having over 10% and Herfindal index. Econometric tools like multiple linear regressions were used for analysis. The results of the study suggest that there is a positive significant link between firm performance and proportion of independent members of the board.

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1. Introduction

Corporate governance (CG) has become an important subject in transition economies in recent years. The concept of CG refers to the set of mechanisms that influence the decisions made by managers when there is a separation of ownership and control. Directors, owners and corporate managers have started to realize the benefits of having a good corporate governance structure. One important benefit of good corporate governance is that capital can be obtained much easier. International investors hesitate to lend money or buy shares in a corporation that does not subscribe to good corporate governance principles. Transparency, independent directors and a separate audit committee are especially important for international investors and they will not invest in a company that does not have these things (McGee, 2008)

The general idea is that corporate governance has important implications for the growth perspective of an economy, because good corporate governance practices reduce risk for investors, attract investment capital and improve the performance of companies (Spanos, 2005). Corporate governance is considered as a certification of corporate responsibility and quality of public financial information, therefore enhancing the integrity and efficiency of capital markets, which in turn will improve investor confidence (Rezaee, 2009).

According to the OECD corporate governance is the mechanism by which an entity is directed and controlled. *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".*

The major objectives of the study are: to critically evaluate the legal and regulatory framework concerning corporate governance, to examine the effect of ownership concentration on firm performance and to examine the effects of corporate governance on firm performance.

2. Literature review

The literature on the relationship between corporate governance and firm performance is extensive. The concept of CG has become a popular discussion topic both in developed and developing countries. The general vision is that corporate governance determines firm performance and protects the interests of shareholders. However, the manner in which corporate governance is organized differs between countries,

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depending on the economic, political and social contexts. For example, Clarke and Clegg (2000) identified four models of CG: Anglo-saxon model, Rhine model, Latin model, Japanese model. Another classification of corporate governance systems is that made by Franks and Meyer (2002). They distinguished two models of corporate governance, described as outsider systems and insider systems. The characteristics of these the systems are presented in Table 1.

Table 1. Characteristics of CG systems

Characteristics	Insider systems (Europe and Japan)	Outsider systems (USA and UK)
Listed companies	Few	Many
Concentration of ownership	High	Low
Dominant ownership	Dominance of corporate or institutional shareholder	Dominance of nonbank financial institutions and private individuals
Intercompany holdings	Many	Few
Trading ownership	in frequent	Frequent
Shares	Large holdings Concentrated companies	Widely held Dispersed individuals

Source: Adapted after Trefor Jones, Business Economics and Managerial Decision Making, (UMIST, Manchester, UK), published by Chichester, John Wiley, 2004

The economic literature distinguishes two important approaches of CG. These approaches are "stakeholders approach" and the "shareholders approach". The "shareholders' approach" disregards CG activities because the only purpose of a company is to obtain profit, thus maximizing the wealth for the shareholders. As to the "stakeholders' approach", CG initiatives are welcome and encouraged given the fact that not only the shareholders are involved in the activity of the company but also other parties too (Chirleşan and Apostoaie, 2012).

There are some differences between corporative sector in developing countries and corporative sector in developed countries. The factors which determine differences between developed and developing countries are: political stability, legal system, size of capital market, ownership. The literature related to financial impact of corporate governance on firm performance in developing countries is still relatively limited. The few studies that are available in developing countries have produced mixed results (Mashayekhi and Bazaz, 2008).

However, firms from developed countries have dispersed shareholders and operate within stable political and financial systems, well developed regulatory frameworks and effective corporate governance practices. The dynamics and development of the corporate sector in developing countries is often different from those in countries with more developed economies. On the other side, firms that operate in developing countries and Latin countries such as Romania may be affected by political instability, the conflict between economic goals and political necessities, the lack of capital, which result in an amplified fiscal deficit.

Regarding the link between CG and firm performance, the findings are uncertain. Some studies find that corporate governance is positively associated with firm performance while other studies find no such relation. The literature that shows a positive correlation between CG and firm performance is based on the agency theory. According to this theory an efficient board of directors can significantly reduce agency costs.

The research of Brown and Caylor (2004) on a large sample of US firms found a strong correlation between corporate governance and performance, valuation and dividend payout. Also, Lee et. all (1992) observed in their study that stockholder wealth increases in management buyouts when outside directors are in charge. Beasley (1996) concluded that the probability of financial fraud is reduced when a firm has outside directors and an audit committee. Similarly, Denis and Sarin (1999) find that firms would have above-average stock price returns if they substantially increased the proportion of independent directors.

In contrast to these studies, there are some others studies that do not reveal a positive link between dimensions of corporate governance and firm performance. For example Bhagat and Bolton (2008) found that board independence is negatively correlated with contemporaneous and subsequent operating performance and also none of the governance measures are correlated with future stock market performance. Also Larcker et. all (2007), showed that the association between corporate governance and firm performance is inconsistent although they admitted that their concluding remarks may result from difficulty in identifying reliable and robust measurements of corporate governance. Fosberg (1989) finds no correlation between the proportion of outside directors and various firm performance measures (sales, general and administrative expenses, revenues, number of employees, and return on equity). In a related paper Klein (1998) suggests that there is no relationship between overall board independence and operating performance, the study shows that there is a significant relationship between insider presence on some (finance and investment) committees and operating performance.

While the correlation between corporate governance and firm performance is still not clearly established, it is a frequent business practice for firms to establish a board of directors to monitor business performance, thereby protecting the company's shareholders.

3. Corporate governance framework in Romania

The concept of CG emerged in Romania only in the early 2000s. So the Corporate governance in Romania is not yet well developed. The primary sources of law related to corporate governance are: the company law, capital market law, capital market law, the law of insolvency, the law of accounting, the order of minister of public finance regarding the accounting rules. Besides this primary legislative framework, companies listed on Bucharest Stock Exchanges are also regulated by the legislation issued by the Romanian National Securities Commission. This commission has the role of regulatory and supervisory authority for Romanian capital market. The aim of this commission is the protection of investors and integrity of Romanian capital market. The commission is also in charge with incorporation of European Commission legislation directed at capital markets.

The explicit corporate governance requirements for Romanian listed companies can be found in the new "Corporate Governance Code" issued by the Bucharest Stock Exchange. The Corporate Governance Code (CGC) issued by the Bucharest Stock Exchange was last updated in 2008 and includes supplementary requirements to the legal obligations included in Romanian legislation.

This code is based on OCDE principles of corporate governance and became applicable starting from fiscal year 2009. The code is applied on voluntary basis by the companies traded on the regulated market of BSE. Companies that decide to adopt the code, either partially or entirely are required to annually submit a standardized statement, the *"Apply or Explain Statement"*. In this statement, issuers are required to specify the compliance or non compliance with the Code, which recommendations of the code have been implemented. If a recommendation has not been implemented, the issuers are required to explain the reasons.

Corporate Governance Code of BSE is similar to those adopted by other EU member states and provides new compliance recommendations, important for directors and boards in charge of Romanian companies. BSE Code is considered as having suppletive character to other Romanian laws applicable to companies traded on the regulated market (Feleaga, 2011).

The BSE CGC includes 11 articles, 19 principles and 40 recommendations. The articles, which are the building blocks of the code, address the following issues: Corporate Governance Framework (art. 1), The share & other financial instruments holders' rights (art. 2), The role and duties of the Board (art. 3), Composition of the Board (art. 4), Appointment of Directors (art. 5), Remuneration of Directors (art. 6), Transparency, financial reporting, internal control and risk management (art. 7), Conflicts of interests and related parties' transactions (art. 8), Treatment of corporate information (art. 9), Corporate social responsibility (art. 10), Management and control systems (art. 11). In total, there are 51 principles and recommendations that mean 51 lines to fill, in this statement.

In Romania companies are generally characterized by the corporate governance model based on internal control and management employees, but with certain conditions based on national economic, social, political, cultural specific forms of governance that have emerged and developed. Corporate governance trend of Romanian companies and their performance must be analyzed in the context of transition from planned to market economy. The main methods of privatization that caused the emergence of private sector in Romania were MEBO, mass privatization program and selling stakes to investors across companies (Robu et. all, 2004).

According to OECD report Romania has the following types of government business as a result of the privatization process:

- ***State-owned companies or incompletely privatized companies***, the state is still a shareholder. Within these companies there is a predictably conflict of interest between managers, employees and the state, resulting in conflicting objectives: maximizing profits, maintain jobs, increase tax revenues, satisfy political or individual interests. Economic performance is not the major objective of these economic entities, interests the directors of these companies are rarely subordinated to the interests of shareholders.
- ***Closed private firms*** (small, medium or large), whose shares are not traded on an official market. Owners are usually managers, so there is no conflict of interests between them. However there are many conflicts between owners also resulting in lawsuits. Managers do not aim to maximize the value of the company priority, but rather expanding the business.
- ***Privatised companies*** that meet a variety of forms. There are companies with very dispersed shareholders whose rights are often neglected by those shareholders which have a strong control over the company. The main corporate governance problem here is the conflict between insiders (controlling owners) and outsiders, minority shareholders. Because the minority shareholders usually resulted from the mass privatization program, the controlling owners rarely think of them as investors and useful partners that could eventually contribute funds in the future. Although foreign investors bring in better

organizational and incentive systems that can improve corporate governance, their attitude towards minority shareholders is not much different.

According to OECD (2001) report the major problem for corporate sector in Romania is the conflict between majority shareholders and minority shareholders, which also generate in conflicts between management and shareholders. This conflict has consequences the deterioration of companies' long term performance and even the bankruptcy of the company. There are five categories of shareholders that control companies listed on BSE: strategic investors, the employees associations, institutional investors, the state and natural persons.

According to the OECD report (2001) the major problem of corporate governance for Romanian companies is the board of directors. The board of directors is not efficient in reducing managerial entrenchment and it even contributes to making the problem more serious. There are three main reasons the OECD report mentions. The first is the structure of the board which allows for members of the executive team to be part of the board and even become its president. The second is the legal framework related to board member nomination. Finally, the report mentions a general passive attitude of state nominated board members accompanied by little use of specialized committees and scarcity of independent board members which allows management to assume broader responsibilities and to intervene in board decisions. The same report points out a low equity culture and small shareholder activism and suggests informing and assisting companies and investors in organizing proxy voting which, while legally possible, is rarely used. Managerial compensation based on company' performance is not a common practice in Romanian. However, considering the high levels of managerial entrenchment reported by the OECD, this practice would arguably have a more self-dealing effect than one of aligning managerial and shareholder goals and therefore cannot be considered a viable corporate governance mechanism. The weak presence of the above mentioned corporate governance mechanisms and the possible damaging effect of the board suggest that ownership concentration is the main feasible monitoring technique on management currently available to shareholders of Romanian companies.

4. Methodology

4.1. Data

The information used for this study concerns the Romanian companies listed on the regulated segment of BSE. Currently in this segment of the BSE are listed 106 Romanian companies, of which 26 companies in first category, 52 companies in second category and 1 company in the third category, 25 are unlisted companies and 2 companies are listed on other markets. This research paper concentrate on non-financial companies from the first category. From the group of companies listed on the first category I have eliminated financial companies. The result was therefore a sample of 15 non-financial companies. We manually collected information about size of the board, other board characteristics and financial data from annual reports or from company websites. Information about concentration of ownership was collected from the sites of Central Depositary.

Table 2. Sample firms (Non-financial companies listed on the first category of BSE)

The name of the company	NACE codes
1. Alro S.A.	2442
2. Antibiotice S.A.	2110
3. Azomures S.A.	2015
4. Biofarm S.A.	2120
5. C.N.T.E.E. Transelectrica	3512
6. Concefa SA Sibiu	4120
7. Electromagnetica	2651
8. Impact Developer & Contractor S.A.	4110
9. Oil Terminal S.A.	5224
10. OMV Petrom S.A.	0610
11. Prefab SA Bucuresti	2361
12. Ropharma SA Brasov	4773
13. S.N.T.G.N. Transgaz S.A.	4950
14. Socep S.A.	5224
15. Turbomecanica S.A.	3030

We consider three characteristics of board as core independent variables of corporate governance, inspired from the work of Fama and Jensen (1983). They are (i) the number of members of the board (B_SIZE); (ii) the proportion of independent directors on the board (B_INDEP) and (iii) chief executive officer duality (CEO DUALITY), which indicates whether the CEO is also the chairman of the board. We also consider two measure of concentration (CONC and H). We control for firm size (SIZE), leverage (LEV). These variables are described in the next sections. We use multiple regression analysis to find the association between the

explanatory variables and firm performance. Correlation analysis is used to assess whether multicollinearity does not exist among independent variables.

4.2. Variables used and hypothesis development

Dependent variables

This section describes the variables used and the research models: dependent variable and independent variable.

The dependent variables are the performance measures. Because of the immaturity of the Romanian Stock Market, it is inappropriate to use Tobin's Q to measure the performance of the listed companies in Romania. Using accounting measures would be a better choice. Thus, in this study, we use the Return on Equity (ROE), Return on Assets (ROA) and Return on Sales (ROS) to measure firm performance. These ratios are the most commonly used for analyzing firm performance. ROA as the ratio of net profit to firm's assets gives an idea as to how efficient management is at using its assets to generate earnings. ROS is the ratio of net profit to total sales and captures company's operational efficiency and growth opportunities. This ratio is also known as operating profit margin. Return on equity (ROE), the ratio of net profit to equity, captures firm's efficiency at generating profits from shareholders' equity. In general, the existing literature documents the appropriateness of these ratios as performance measures in transition context. However, there are potential problems with the usage of the above-mentioned ratios. ROE is subject to the most serious accounting distortions. The problem is that the positive ROE does not always witnesses that a company is profitable. If the company incurs losses during several accounting periods, accumulated losses appear in the equity section and may result in negative value of equity. Therefore, positive values of ROE may occur as the ratio of two negative entries, loss to equity. It may turn out that loss-maker has a positive return on equity. In our sample there was a company in this situation. We had to eliminate this company because we did not want a distortion of the results. As to the remaining ratios, ROA and ROS, they may also suffer from the accounting errors (both random and intended), missing values in financial reports that cause the bias in estimation. However, they can be mitigateed by applying screening procedures, as many researchers do. The magnitude of possible distortions in measuring ROA and ROS is therefore much smaller than in case of ROE and these profitability ratios are considered to be appropriate performance measures. In general, it is reasonable to refer to several performance measures rather than to the single indicator in order to compensate for individual shortcomings.

Based on the above theoretic analysis the independent variables in this paper are ownership concentration variables and corporate governance variables. These variables and the control variables are described below. Many empirical studies have tested the effects of corporate governance measures on corporate performance. Evidences on these effects, however, have been mixed. In spite of these discrepancies, there have been some relatively consistent findings and observations from past research, on the basis of which hypotheses have been formulated.

Ownership Structure Variables

The effects of ownership concentration on firm performance are theoretically complex and empirically ambiguous. Conceptually, concentrated ownership may improve performance by increasing monitoring and alleviating the free-rider problem in takeovers (Shleifer and Vishny, 1986), but other mechanisms may work in the opposite direction. Most frequently discussed is the possibility that large shareholders exercise their control rights to create private benefits, sometimes expropriating smaller investors (Earle, [16]). Other potential problems of concentration may result if managerial initiative is repressed by excessive monitoring (Burkart, Gromb, and Panunzi, 1997).

According to Pana (2009) ownership concentration is a "double edged sword": a higher level of concentration results in higher motivation for shareholders to monitor management but it also provides self dealing opportunities for the major shareholders. Two measures have been used as proxies of ownership concentration. These measures are: the fraction of shares held by the largest top three shareholders (CONC) having over 10% of shares and Herfindal index of ownership concentration as the sum of squared percentage of shares controlled by each top three (H). There were at least two reasons for the choice of the top three shareholders for determining ownership concentration. First, there is enough evidence bearing this choice of proxy for determining the concentration (Bohren and Odegaard, 2001). Second, the fact that data for larger number of shareholders was unavailable for several companies. Thus this study also examines the relationship of ownership concentration with performance measures and we hypothesized that:

H1: Ownership concentration is negatively associated with performance measures.

Board size (B_SIZE)

The size of the board has been measured as the total number of members on the board. There is a general view that smaller boards improve corporate performance (Bermig and Bernd, 2010). However, this view has recently been challenged by other researchers (Coles et al., 2008) who argue that larger boards may improve the performance of firms requiring more advice, particularly complex firms that operate in multiple

segments. Larger boards are better for firm performance because they have a variety of expertise to help in making better decisions and are harder for a powerful CEO to dominate. We therefore hypothesize that board size has a positive effect on firm performance:

H2: There is a positive relationship between board size and firm performance.

Board Independence (B_INDEP):

The independence of the board has been measured by the proportion of independent members to total members on the board. The existing literature examining the role of board independence on firm performance revealed mixed findings. Though the issue of whether board members should be insiders or outsiders has been well investigated, no clear conclusion has been reached. On the one hand, inside directors are more familiar with the company's activities and they can act as monitors to top management. On the other hand, non-executive directors may act as professional referees to ensure that competition among insiders stimulates actions consistent with shareholder value maximization. The board of directors is the most effective internal control mechanism for monitoring the behavior of top management (Fama and Jensen, 1983). If outside directors either hold no shares or hold an insignificant number of shares, their incentive to monitor management, and thus protect shareholder interests, may be less. On the other hand, several corporate reformers have concluded that independent directors and audit committees of independent directors will enhance the audit process (Blue Ribbon Committee, 1999).

The supporters of agency theory believe that board comprising majority of outside directors reduce agency conflicts as they provide effective monitoring tool to the board (Fama and Jensen, 1983). They argue that the independent members of the board are more efficient in monitoring the top management and to ensure there is no complicity with top managers to expropriate shareholder wealth as they have incentives to develop their reputations as experts in decision control. Normally, independent members of the board are well known experts managers from other large organizations and with its expertise in the field, independence, objectivity and legal power. Independent members of the board become potentially powerful governance mechanisms to diminish the agency costs and protect shareholders wealth. Therefore this study also examines the relationship of ownership concentration with performance measures and we hypothesized that:

H3: There is a positive relationship between the proportion of independent directors on the board and firm performance.

Board Leadership (CEO DUALITY):

CEO duality is a dummy variable that takes the value "1" if the CEO is also chairman of the board and "0" otherwise. The issue of separating the two posts was addressed in the Cadbury Report (1991), which recommends that the roles of the board chairman and the CEO should be separated. The Romanian Code of Corporate Governance (2008) also advises a similar board structure. When both positions (board chairman and CEO) are invested in a single person, the board's monitoring function will be severely impaired (Mashayekhi and Bazaz, 2008). This board independence impairment could affect its incentive to ensure that management pursues value increasing activities. In this study, we consider CEO duality an indicator which declines firm performance. Therefore, we hypothesize that:

H4: There is a negative relationship between CEO duality structure and firm performance.

Control variables

In order to control for the other possible determinants of performance not captured by the ownership and governance variables, some observed company characteristics have been included as control variables. The control variables used in the study have been selected with reference to those employed in earlier studies.

Foreign ownership (FOR) is a continuous variable which express the percent of foreign equity in total equity of the company. In the most of the cases the literature suggests that firms with foreign capital have certain advantages over domestic capital firms, leading to superior performance of firms with foreign capital. Dunning (2008) suggests that the superior performance of foreign-owned companies is the result of the ability of the foreign investors to exploit economies of scale and superior system of governance. So, the presence of foreign investors is expected to increase firm performance for a number of reasons. First, they add pressure on managers by providing additional monitoring. Second, they are able to provide new capital and managerial expertise. Third, they assist in integrating local firms into international markets, resulting in a lower cost of capital (Douma, Rejie, Kabir, 2006).

***Size* (SIZE) -** Firm size can be measured based on total assets or annuals sales. Most of the similar studies use logarithm of total assets or logarithm of sales. For this study I used logarithm of total assets to express the size of the company. The relationship between firm size and firm performance was vastly investigated in the literature, but remains unclear. One view is that larger firms hold economies of scale and better access to capital markets to achieve lower cost and higher returns (Ramasamy et al, 2005). Other view suggests non-significant results or negative link between the firm size and profitability. Whittington (1980) found a negative association between firm size and profitability for U.K. based listed manufacturing

companies covering the time period from 1960 to 1974. Further, it has been suggested that increased size tends to be associated with higher bureaucratisation (Chhibber and Majumdar, 1999). Larger firms may have overly bureaucratic management structures, thereby inhibiting swift and efficient decision-making process. It is also possible that with the additional management layers needed to organise an increasingly large and diverse workforce, management may be affected by the agency problems.

***Leverage* (LEV) -** Leverage is used to account for the effect of capital structure on corporate performance and financial risk and has been measured as ratio of debt to total assets. Depending on the cost of debt, the effect of leverage may be favourable or unfavourable. When the cost of debt is lower than the company's rate of return, shareholders' earnings will be magnified. However, when the rate of return on the company's assets is lower than the cost of debt capital, then the leverage effect will be unfavourable (Ramasamy, Ong and Yeung [24]).

5. Results and interpretations

Descriptive statistics

Table 3 is the descriptive statistics of main variables for the considered samples. It shows that the general level of performance in 2010 for Romanian listed firms in the first category of BSE is positive, with an average performance measure (8,37% for ROE, 5,42% for ROA of 5,42% and 18,17% for ROS). The average proportion of independent members in the board is 67,9%. The dummy variable representing CEO duality is 0,5333 on average. It means that firms with the phenomenon duality is present to about 53,33% of all firms from the sample. The average size of board is 6 members, with a minimum of three and a maximum of 9. The concentration measures show us a high degree of ownership concentration. The average sum of the participation of the first three shareholders is 69,36%.

Table 3. Descriptive Statistics

Elements	N	Minimum	Maximum	Mean	Std. Deviation
Return on Equity (ROE)	15	-0,12	0,21	0,0594	0,08367
Return on Assets (ROA)	15	-0,02	0,17	0,0637	0,05429
Return on Sales (ROS)	15	-0,51	0,29	0,0286	0,18168
Board Size	15	3,00	9,00	6,0667	1,66762
Board Independence	15	0,20	1,00	0,6794	0,23059
CEO duality	15	0,00	1,00	0,5333	0,51640
CONC_3	15	0,30	0,93	0,6936	0,19639
HERF	15	0,05	0,71	0,3254	0,21644
CONC_1	15	0,18	0,84	0,4985	0,21989
Levarage	15	0,01	0,72	0,2781	0,19878
Size of the firm	15	7,54	10,14	8,4986	0,76545
Foreig ownership	4	0,51	0,84	0,7259	0,14785
Valid N (listwise)	15				

Correlation analysis

Correlation coefficients of all variables are shown in Table 4. We can observe a strong correlation between the performance ratios, which means that all three measures can reflect firm performance. Correlations are consistent with the theoretical analysis and hypotheses in previous sections. Thus, there is a weak correlation among independent variables in the models above. It indicates that the problem of multicollinearity doesn't exist.

Table 4. Person correlation

	ROE	ROS	ROA	B_SIZE	B_INDEP	CEO_DUAL	CONC	HERF	LEV	SIZE	FOR
ROE	1	0,731**	0,893**	0,421	0,559*	0,294	0,488	0,264	-0,172	0,350	0,605*
ROS		1	0,728**	0,415	0,664**	0,396	0,662**	0,435	-0,249	0,256	0,207
ROA			1	0,367	0,439	0,362	0,366	0,281	-0,279	0,382	0,533*
B_SIZE				1	0,033	0,288	0,290	0,028	-0,136	0,374	0,258
B_INDEP					1	0,265	0,380	0,314	-0,294	-0,230	-0,074
CEO_DUAL						1	0,695**	0,800**	-0,199	0,615*	0,229
CONC							1	0,828**	0,107	0,554*	0,394
HERF								1	0,038	0,500	0,262
LEV									1	0,092	,326
SIZE										1	,376
FOR											1

Multiple regression analysis

Multivariate regression analysis on cross-sectional data was used to empirically test the hypotheses discussed above. Using combination of variables 9 models of linear regression equations was constructed.

Table 5. The results of multiple regression

Dependent variable	ROE			ROA			ROS		
Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
(Constant)	-0,759 (0,000)	-0,783 (0,000)	-0,793 (0,000)	-0,367 (0,089)	-0,388 (0,059)	-0,419 (0,044)	-1,493 (0,070)	-1,440 (0,083)	-1,205 (0,103)
B_SIZE	0,006 (0,101)	0,008 (0,074)	0,009 (0,031)	0,001 (0,826)	0,004 (0,573)	0,004 (0,476)	0,026 (0,300)	0,040 (0,162)	0,029 (0,196)
B_INDEP	0,287 (0,000)	0,309 (0,000)	0,313 (0,000)	0,134 (,026)	0,152 (0,014)	0,170 (0,012)	0,618 (0,011)	0,574 (0,020)	0,443 (0,052)
CEO DUALITY	-0,083 (0,000)	-0,081 (0,008)	-0,088 (0,002)	-0,036 (0,233)	-0,046 (0,251)	-0,039 (0,220)	-0,068 (0,533)	-0,188 (0,260)	-0,178 (0,147)
H		-0,036 (0,469)			-0,011 (0,895)			0,331 (0,341)	
CONC			-0,031 (0,556)			-0,062 (0,463)			0,558 (0,104)
FOR	0,152 (0,000)	0,162 (0,009)	0,162 (0,000)	0,092 (0,020)	0,108 (0,009)	0,110 (0,007)	0,064 (0,612)	0,068 (0,606)	0,055 (0,633)
SIZE	0,072 (0,000)	0,072 (0,000)	0,073 (0,001)	0,041 (0,090)	0,041 (0,077)	0,046 (0,055)	0,113 (0,200)	0,096 (0,275)	0,058 (0,472)
LEVERAGE	-0,119 (0,003)	-0,036 (0,009)	-0,035 (0,013)	-0,112 (0,074)	-0,043 (0,035)	-0,038 (0,061)	-0,093 (0,661)	-0,056 (0,444)	-0,089 (0,211)
Adjust R2	0,973	0,975	0,975	0,766	0,832	0,845	0,704	0,744	0,804
F	47,384	39,470	38,381	4,372	4,949	5,445	3,172	2,905	4,095
Significance test	0,000	0,000	0,000	0,030	0,026	0,020	0,067	0,091	0,041

Table 5 presents the results of multivariate regressions used to test the hypotheses stated earlier. This study runs nine different models in estimating the relationship between firm performance and the test variables. For the first three models, the dependent variable is ROE. In the Model 1, the test variables of corporate governance are considered while in the Model 2 and Model 3, the ownership concentration variables are entered.

Similarly the other models test the relationship between firm performance and test variables, having as dependent variable ROA and ROS.

The main findings of the study are:

- The coefficients of board independence and board size are statistically significant and have a positive impact over the performance measures in 8 from 9 models.
- CEO duality has a negative impact over the performance measures. The coefficient of variable is statistically significant only in relation with ROE.
- The coefficients of control variable are statistically significant only related to ROE, and partially related to ROA, having the expected signs.
- The ownership concentration variables suggest a negative impact of concentration on firm performance. However the coefficients for concentration variable are not significant.

Regarding the corporate governance variables, the findings of this study are consistent with prior study. The independence of board members and the size of the board seem to have a significant positive impact over the firm performance, while CEO duality seems to have a significant negative impact on firm performance. We can argue that independent members of the board are more able to provide independent judgment. Their expertise, skills and knowledge in understanding financial reporting details explain our findings. As an argument to this, we indentified among independent members of the board very qualified persons with strong background, university professors, members with PhD, and so on.

Regarding the ownership concentration, this study did not find any significant association between ownership concentration and firm performance. With respect to the control variables, all of them are associated with firm performance. The coefficient of variables is statistically significant.

6. Concluding Remarks

In this paper I examined the impact of corporate governance and ownership information on the financial and economic performance of Romanian companies listed on the first category of Bucharest Stock Exchange. Six of the proposed models of the study show significant results for the relationship between corporate governance measures and firm performance, explicitly those which are having ROE and ROA as

dependent variable. The results of this study do not contradict the results of prior studies. This study reveals a strong link between board independence and firm performance.

The study was subject of limitations. For example, the non-availability of complete ownership information of companies has been a constraint in assessment of ownership structure. I also face up with incomplete disclosure of information related to corporate governance. In some cases information about board characteristics was not available on the company websites and they were obtained from other sources like Monitorul Oficial or National Trade Register Office.

The validity of the results drawn primarily depends on the nature of the sample. The sample included only companies from the first category of BSE. I will try to extend the sample to others companies from second and third category or from RASDAQ market, but I face up to non-available information and a low-level of information transparency. Most companies that are traded on other section of BSE, especially companies traded on RASDAQ, do not provide relevant information to make an objective empirical analysis of the independence board of directors as a corporate governance measure.

There are many factors that influence firm performance and not all of them have been controlled for and to test the governance structure and performance of companies, it may be necessary to collect data for a longer time horizon.

The findings of this study should be analyzed in the context of ownership structure and cultural background in Romania. Cultural features of the Romanian society are also an important factor that should be taken in to account for the sound analysis of the findings. As discussed above, Romanian companies have very distinguishing features. Romanian firms are mostly owned by families. Families are not only the controlling shareholders, but they also are very involved with the management of the family firms.

For further research, I would like to study the channels through which corporate governance can affect firm performance. My future plans are to separate this problem and to carry out further studies to investigate the effects of corporate governance on specific financial activities (investment, earning management, corporate transparency, dividend policy, capital structure, etc). In addition, this sample is only for firms listed on the first category of Bucharest Stock Exchange. I would like to extent my research to other segments or categories of BSE.

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