Accounting and Management Information Systems
Vol. 24, No. 1, pp. 138-172, 2025
DOI: http://dx.doi.org/10.24818/jamis.2025.01005

The influence of corporate governance mechanisms on financial performance. Is gender diversity a relevant board characteristic?

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Abstract

Research Questions: To what extent is the financial performance of Romanian listed companies influenced by corporate governance mechanisms? Does a higher proportion of women on boards of directors lead to better financial performance in listed companies?

Motivation: As a consequence of the corporate scandals occurred on a global scale, numerous developed countries have implemented initiatives to improve governance mechanisms towards maintaining financial stability. For emerging countries, the companies are still struggling to identify and address management shortcomings in ensuring financial performance. In the light of these developments, research on the impact of board characteristics on financial performance in case of emerging countries are still generating interesting results.

Idea: The purpose of this study is to present empirical evidence of the relationship between board characteristics and financial performance for companies listed on an emerging stock exchange. In addition, it discusses whether gender diversity is a relevant corporate governance mechanism that may influence the financial performance.

Data: The data were collected from the annual reports of companies listed on the Bucharest Stock Exchange for the period 2020-2023.

Tools: Regression analysis was applied to examine four research hypotheses addressing the impact of various board characteristics on corporate financial performance. Robustness tests were applied to validate the results.

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Article History: Received 11 September 2024; Accepted 6 February 2025.
Accepted by: Nadia Albu.

Findings: The results reveal that CEO duality and board size positively influence both ROA and ROE, while board independence exerts a negative but not significant influence on both performance indicators. Contrary to results of studies conducted on developed countries, this research indicates that the proportion of women on the board of directors has a statistically significant negative impact on the financial performance of Romanian listed companies.

Contribution: This paper provides up-to-date evidence for the Romanian companies, on the influence of corporate governance mechanisms on financial performance and the relevance of board gender diversity. It offers researchers, regulators, and investors, valuable insights, that may be used to enhance financial performance and mitigate corporate failures, for an emerging country.

Keywords: corporate governance mechanisms, board characteristics, financial performance, gender diversity, Bucharest Stock Exchange

JEL codes: M41, G34

1. Introduction

In the global business setting, companies are focusing their efforts on achieving outcomes that may attract investors. Corporate stability and profitability are key factors influencing the investment decision in today's competitive business environment. Corporate governance mechanisms, as reflected by characteristics of board of directors, are essential, intrinsic elements that have been and continue being of considerable interest in academic research (Abdullah & Tursoy, 2023; Almontaser & Faudziah, 2018). The question *How corporate governance influences the financial performance of the company?* has captured considerable attention within the scientific community and the socio-economic environment (Achim, 2024; Lungu *et al.*, 2020).

The prevalence of financial scandals over the years has led to a heightened interest in the relationship between corporate governance and performance. This is due to the pivotal role that corporate governance plays in the companies' value creation and its impact on society in general (Lungu *et al.,* 2020; Puni & Anlesinya, 2020; Duru *et al.,* 2016). Thus, the major deficiencies of corporate governance were highlighted by the financial crisis. This aspect has led to a substantial improvement in governance mechanisms through the establishment of deep reforms, institutional, strategic and managerial, altogether. It became necessary to adopt a better regulation (Achim, 2024). Muchmore, regulations on ensuring gender equality have generated an increased focus on the impact that board gender diversity has on corporate financial performance (Wang *et al*., 2024; Kabir *et al*., 2023; Brahma *et al*., 2020).

The motivation of this study is justified by the practical importance of the subject: improving corporate governance mechanisms and practices to help companies increase their financial performance. According to the Harvard Law School Forum on Corporate Governance, 64% of investors consider weak corporate governance to be the most important factor in their investment decisions, along with poor financial performance (Vasantham *et al.*, 2020*)*. Better performance is expected to be achieved while considering investors' interests. There is a growing concern in the economic environment about the implementation of reliable corporate governance measures, particularly gender diversity mechanisms. The importance of gender diversity in corporate management is becoming increasingly recognized in academic and professional circles. As evidenced in the Gender 3000 report published by Credit Suisse (2021), the proportion of female directors on corporate boards has increased significantly over the past few years, from 15.1% in 201,5 to 24.0% in 2021.

A multitude of organizational, cultural, or legislative factors may exert influence and engender different perspectives and expectations with regard to financial and non-financial performance issues across emerging or developing countries. A limited number of studies have been conducted on corporate governance in emerging markets, in comparison to the extensive research that has been carried out in developed economies (Alshirah *et al*., 2022; Alanazi, 2019). A gap in the literature is identified for Eastern European countries (Kalantonis *et al*., 2023; Ciftci *et al*., 2019). Of these, Romania has experienced one of the most substantial economic growth within the region in recent years (Popescu, 2019). Moreover, the heterogeneity of listed companies and the lower level of transparency compared to more developed capital markets make the developing Romanian capital market an interesting field of research (Dănescu *et al*., 2021; Albu & Gîrbina, 2015; Feleagă *et al.*, 2011).

Hence, this research aims to examine the impact of corporate governance mechanisms, reflected by board characteristics, on corporate financial performance and to extend the investigation by including gender diversity as a specific characteristic of the board. It highlights whether and to what extent the proportion of women on the board of directors affects the financial performance of companies from an emerging country. In view of the recent gender diversity regulations (Directive (EU) 2022/2381), a comprehensive understanding of the present circumstances is crucial for informed decision-making. Therefore, this investigation seeks to address the gap in gender diversity research, in the context of Romania, an emerging Eastern European country, under-represented in this field of research (Achim, 2024).

The present study contributes to the existing literature on the relationship between corporate governance structure and managerial gender diversity and their impact on organizational performance in emerging markets. Therefore, it could provide an insight on how corporate governance practices in Romania vary from those observed in other countries or regions, thus offering a contextualized understanding of implementation challenges. Another contribution of this study is supported by the inclusion of the gender diversity mechanism of corporate governance in examining the impact on financial performance. The empirical study add value to the research field by offering access to new data collected from Romanian companies and by addressing the scarcity of information access. The results provide practical context for researchers and business managers interested in the impact of corporate governance on the performance of companies listed on an emerging country. They also provide information relevant to policy makers, shareholders and management, on which corporate governance mechanisms may be effectively used to achieve better financial performance.

The rest of this paper is organized as follows. The first section of the paper emphasises the theoretical foundation of the topic by referencing the literature. The section aims to present the research hypotheses on the influence of different corporate governance mechanisms (size, independence, and gender diversity of the board, duality of the CEO) on financial performance. The second section illustrates a detailed description of the research methodology, including a description of the database, the variables, and the statistical model used to answer the research objective. The third section presents the results of the statistical and regression analysis. The final section concludes on the main findings and provide research limitations and future directions.

2. Literature review and hypotheses development

2.1 Theoretical framework

Most of the prior research on corporate governance concentrate on contexts that provides insight into the owner-agent conflict (Fulgence *et al*., 2024; Younas, 2022; Utama *et al*., 2017; Shi *et al.,* 2017; Renders & Gaeremynck, 2012; Mustapha *et al*., 2011). However, the occurrence of corporate scandals on a global scale has contributed to an increased awareness among managers, investors, and regulators of the significance of corporate governance in ensuring financial stability (Guluma, 2021; Kyere & Ausloos, 2021; Wicaksono *et al*., 2019; Goel, 2018). Consequently, in numerous countries, there has been a concerted effort to develop measures to enhance governance practices and to assess their impact on the value and decision-making processes of firms (Achim, 2024).

In recent years, the board of directors and its role have received increased attention as a result of major corporate failures, such as Lehman Brothers, and corporate fraud, such as Enron 2001, Andersen 2001/2002, WorldCom 2002, Parmalat 2003/2004, and the financial crisis (Nadaf & Navi, 2017; Achim *et al*., 2016). This is because the board of directors is considered responsible for the implementation of effective corporate governance (López-Cabarcos *et al*., 2023). Gherghina (2017) posits that the board of directors is the most pivotal factor in corporate governance, exerting a significant influence on the overall business dynamics and the interests of the owners. Thus, adopting robust governance practices is believed to reduce investors' risk, and increase financial performance, which will lead to attract new investors (Goel, 2018). Muchmore, studies show that the presence of women on board exerts a significant influence on these strategies adopted by the board of directors (López-Cabarcos *et al*., 2023).

Theories of corporate governance are significant in the understanding of the impact of corporate governance on financial performance (Achim, 2024). The relationship between corporate governance and financial performance is underpinned by four distinct theoretical approaches, including agency theory, stewardship theory, stakeholder theory, and resource dependence theory (Younas, 2022; Abdullah & Valentine, 2009; Nicholson & Kiel, 2007). Agency theory has dominated the empirical research that examine the impact of corporate governance on financial performance, focusing only on the monitoring function of boards (Pucheta-Martínez & Gallego-Álvarez, 2020). Nicholson and Kiel (2007) describe these theories by reference to the role that board of directors has on the performance, as follows: *agency theory* focuses on the link between board structure and performance; *stewardship theory* investigates the relationship between performance and the proportion of independent members in the boards of directors; *stakeholder theory* emphasises that performance should serve the interest of all its stakeholders*;* *resource dependence theory* examines the way in which the board's links and connections affect the performance by assuring a wide range of resources. Gherghina (2017) posits that agency theory and stewardship theory offer substantial insight into the functions of the board of directors with regard to size and independence, as well as the functions of the CEO and their impact on firm performance. López-Cabarcos *et al.* (2023) and Ouni *et al.* (2022) present the impact of board gender diversity on financial performance through the agency and resource dependence theories. The diversity of board members may provide both different perspectives for solving the owner-agent conflict, and intangible resources needed for assuring profitability. Since the objective of corporate governance is to establish a framework that enables the most effective method of unifying the interests of both principals and agents, it is imperative to create a comprehensive approach for examining the impact of corporate governance on performance, with a particular focus on the theoretical underpinnings of this relationship (Achim, 2024).

Jensen and Meckling (1976, cited by Ramly & Rashid, 2019) establishe the need for corporate governance to mitigate agency costs arising from opportunistic managerial behaviour. A similar view is shared by Rezaee (2007, cited by Dharmastuti & Wahyudi, 2013) who views corporate governance as a mechanism to align the interests of management with those of shareholders. In other words, its role is to reduce agency costs and create long-term shareholder value. Good corporate governance is fundamental to improving the company's image, increasing shareholder confidence, and reducing the risk of fraudulent activity (Guluma, 2021). Due to this unethical management practice, most countries have introduced mandatory regulations and guidelines to strengthen corporate governance practices. (Goel, 2018). The doctrinal underpinnings of corporate governance have been substantiated through the development of the Cadbury Committee Report in the United Kingdom in 1992 and the Sarbanes-Oxley Act in the United States in 2002. They establish principles to be respected by companies, such as transparency, integrity and accountability (Onofrei, 2009). Due to the complexity of the concept of corporate governance (Dragomir, 2010), the literature has approached this phenomenon from different perspectives, illustrating the implications it may have within organisations (Albu *et al.* 2013). During the 1990s the corporate governance controversy intensified, first in Anglo-Saxon countries and then in continental Europe, and then spread worldwide (Onofrei, 2009). Cadbury Report (1992) defines corporate governance as a mechanism of business management and monitoring that manages the link between the effectiveness of management and the protection of shareholders' interests. Thus, corporate governance is concerned with how shareholders may get a return on their investment.

Similar codes of good governance were gradually adopted in the rest of the European countries, becoming a source of normative institutional pressure for convergence within them (Achim, 2024). The adoption of these reforms has been significant in emerging economies countries and helped companies to enhance investor confidence, strengthen effective corporate structures and face competition (Goel, 2018). Therefore, it is believed that corporate governance has emerged as a result of events that have dominated the last decades, constituting a strategy for prosperity and not just a survival tool for entities (Feleagă *et al.,* 2011). New policies and practices of corporate governance have also been adopted in European emerging countries to respond to the challenges created by the dynamics of the economic environment, marked in recent times by numerous financial scandals, but also by the increasing demands on integrated performance, quantifiable for both financial and non-financial aspects (Dănescu & Popa, 2020; Fulop & Pintea, 2015). Thus, in the aftermath of the global economic crisis, there has been an increase in foreign investors' interest in emerging markets, in general, and in Romania, in particular, since 2000, as a result of the country's economic development and its accession to the EU in January 2007. This has required a fundamental restructuring of the economy that included the adoption of good corporate practices as defined in the European legislation (Borlea *et al.,* 2017; Albu & Gîrbina, 2015). All these challenges have led to the implementation of an effective governance model with the aim of increasing the attractiveness of foreign investors through transparency and trust in companies, leading to increased performance and competitiveness in the long term (Dănescu & Popa, 2020; Fulop & Pintea, 2015; Feleagă *et al*., 2011). The implementation of effective corporate governance mechanisms is expected to ensure a high level of profitability with the aim of generating significant economic performance for the company. This performance can be a high level of financial return, but also a stock market value of the shares that is designed to attract shareholder appreciation (Feleagă & Vasile, 2006).

Considering the prevailing circumstances, both internationally and at the European and national levels, regulatory authorities have implemented legislative and regulatory measures aimed at creating the requisite conditions to rebuild investors' confidence in the reliability and transparency of financial and non-financial reporting (Dănescu *et al.*, 2021). In this way, the role of board of directors is no longer exclusively limited to the maximisation of shareholder benefits, but also to achieve responsible and sustainable corporate performance (López-Cabarcos *et al.*, 2023). As a result, companies worldwide are adopting a growing awareness of sustainability reporting, incorporating strategies and initiatives to integrate the corporate social responsibility into their business practices (Primec & Belak, 2022; Coffie *et al.,* 2018). Chimonaki *et al.* (2024) emphasise the importance of board gender diversity on sustainability reporting. Until the appearance of the scandals that dominated the economic environment, studies on the concept of corporate governance focused mainly on the ownership structure and how it can determine the reduction of the cost. Later, empirical research focused on the study of the link between the various corporate governance mechanisms and the financial performance of companies, with a particular focus on gender diversity (Miao *et al*., 2023; Mihail *et al*., 2022; Kyere & Ausloos, 2021). The establishment of Sustainability Development Goal (SDG5) adopted by The United Nations (2015) and the EU (2020) strategy for equality between women and men in decision-making have led to a particular focus on board gender diversity (Wang *et al.,* 2024; Fatma & Chouaibi, 2023). Regardless of the European Union's efforts to ensure gender equality, research carried out on European former communist states, indicate notable deficiencies (Pirju *et al*, 2024). In both developed and emerging countries, corporate governance codes are implementing gender quota to increase board diversity (Hernandez-Atienza *et al.,* 2024; Fatma & Chouaibi, 2023). Despite all this, a recent study identify that Romania is the second worst-performing EU country in gender diversity, with significant gender inequalities (Robayo-Abril *et al*., 2023). However, a limited number of studies that investigate the role of gender diversity have been conducted on emerging countries such as Romania (Pirju *et al*., 2024; Bogdan *et al*., 2022; Ionașcu *et al*., 2018).

2.2 Board size and financial performance

Board size is one of the important factors considered in research on the impact of governance on performance, but also the most discussed mechanism of corporate governance described in the scientific literature (Muhammad, 2016; Netai & Rehnuma, 2018). This is due to the fact that the board of directors has both the obligation and the responsibility of general control but also ensures the achievement of effective corporate governance at the company level (Wicaksono *et al*., 2019; Gherghina, 2017). It plays a vital role in the implementation of efficient measures to ensure compliance with the standards of good corporate governance (Gokah, 2016).

According to Paniagua *et al*. (2018), the extant literature has proven over time that the size and structure of the board of directors are important corporate governance mechanisms, and basis of the agency theory. However, the size of the board of directors is influenced by the regulations that apply in each country, the size of the company, and the sector to which it belongs (Feleagă *et al*., 2011). The board of directors must ensure a number of members that guarantee the effectiveness of its ability to monitor and evaluate both the management's activity and the fair approach to shareholders' interests. The size of the board of directors should be directly proportional to the size of the company from the perspective of agency theory (Gherghina, 2017). It is considered that a higher number of board members has the possibility of more effective monitoring of the activities of the members of the executive management, being ensured, in a more vigilant way, the agent problem. A directly proportional relationship is also established from the point of view of the resource dependency theory regarding the size of the board and of the company. Thus, large entities need a high number of administrators that offer an increased number of connections to guarantee access to a consistent range of resources (Pucheta-Martínez & Gallego-Álvarez, 2020).

Previous studies show both positive and negative associations between company's performance and board size. The findings of Jensen (1993) and Lipton and Lorsch (1992) indicate that a board with a limited number of members is significantly more productive and cohesive and is able to effectively monitor the activities of the entities in better alignment with the desired outcomes. Purushottam (2019) believes that smaller board size contributes more and better to the interest of the organization, while Orozco *et al*. (2018) opine that large board size provides better results and improves organizational performance. Similarly, Wicaksono *et al*. (2019) show that the number of members of the board of directors exerts a positive influence on financial performance. Other empirical research has not found conclusive evidence on the correlation between board size and financial performance (Paniagua *et al.*, 2018, Netai & Rehnuma, 2018). Based on these findings, the following research hypothesis is considered:

H1. *The size of the Board of Directors exerts a significant influence on the financial performance of the company.*

2.3 Board independence and financial performance

Board independence is an important aspect of corporate governance, because when the board of an organization is independent, it will make better and impartial decisions that will minimize financial pressure (Muhammad, 2016). Independent members are not affiliated with the management or with other members and have not established business or other relationships that may affect the ability to act exclusively in the interest of the entity (Wicaksono, 2019). According to the Cadbury Report (1992) and the OECD Principles of Corporate Governance (1999), the board independence is considered to be the main feature of the board of directors (Borlea *et al*., 2017).

Agency theorists suggest that the independence of a company's board exerts an influence on the company's performance, as it denotes the capacity of the directors to maintain their autonomy from managerial influence (Pearce & Patel, 2018). Furthermore, the independence of the board tends to lead to better monitoring and protection of shareholders' equity (Muhammad, 2016). In Gherghina's (2017) view, effective monitoring is a function assimilated to board of directors' incentives through the lens of agency theory, whereas, from the perspective of resource dependence theory, a function of board of directors' capital is the provision of resources. Muchmore, Pucheta-Martínez and Gallego-Álvarez (2020) consider that both agency and resource dependence theory positively impact the internal control mechanisms, the effectiveness of decision-making processes, and enhance transparency of disclosure. On the other hand, advocates of stewardship theory consider that superior performance, needs the majority of directors from the entity, as they contribute to maximising shareholder returns (Kyere & Ausloos, 2021).

Previous empirical studies on the relationship between the independence of board members and financial performance are not convergent (Guluma, 2021; Gherghina, 2017). Numerous studies have shown a positive correlation between board member independence and higher business performance (Nur Lely & Indira, 2022; Guluma, 2021; Kyere & Ausloos, 2021; Almontaser & Faudziah, 2018; Müller *et al*., 2014). Contrary, Mititean (2023), Wicaksono (2019), Pearce and Patel (2018), or Borlea *et al.* (2017) have found a negative influence of board independence on financial performance. Considering the evidence illustrated above, the following hypothesis is formulated:

H2. *The percentage of independent directors exerts a significant influence on company performance.*

2.4 CEO duality and financial performance

CEO duality and its impact on company performance is one of the most controversial issues in both academia and business, being one of the key control mechanisms for the board of directors of internal corporate governance mechanisms (Guluma, 2021; Duru *et al*., 2016). When the separation of the position of CEO and chair of the board is not ensured, agency problems are greater (Kajola, 2008, cited by Gokah, 2016) because these functions exert the highest influence within a company. Therefore, power concentration on the hands of a single person often led to decisions that are not aligned with the interests of shareholders. According to the best practices of corporate governance, the chair is appointed by the board of directors, and he must not be involved in the management of the company (Feleagă *et al*., 2011). Ensuring that the positions of chair of the board and CEO remain separated helps to ensure best practice for independent boards (Kiradoo, 2019).

The relationship between management separation and firm performance may be addressed by referring to the two competing theories that dominate the literature on corporate governance: agency theory and stewardship theory. According to agency theory illustrates the idea that boards should be independent from management in order to limit managerial entrenchment and opportunism (Guluma, 2021; Jensen & Meckling, 1976, cited by Duru *et al*., 2016). Thus, it supports the separation, since the duality increases the power that the CEO has over the board of directors, generating convergence of interests of the executive directors. Failing to ensure independence, a dual board leadership structure is likely to have a negative impact on performance, as it reduces the board's potential to monitor management effectively. This aspect leads to minimising the effectiveness of the board of directors and intensifying agency problems (Jensen, 1993; Guluma, 2021).

Alternatively, stewardship theory argues that performance could be improved when a single person holds both positions. In this way, the ambiguity regarding the responsibilities corresponding to the processes and results of the entities can be removed and suggests that the managers are good stewards of company's resources, from which a firm could benefit. This theory suggests that if the role of CEO and chair is concentrated in one person, the conflict of interest between shareholders and managers will be eliminated, and the unification and consolidation of leadership will promote a strong sense of strategic direction (Guluma, 2021; Gherghina, 2017). While Duru *et al*. (2016) provide evidence that duality has a statistically significant negative impact on company’s performance, Kyere and Ausloos (2021) present evidence that CEO duality exerts a positive but insignificant influence on ROA. Considering the evidence illustrated above, the following research hypothesis is formulated:

H3. *CEO duality exerts a significant influence on company performance*.

2.5 Gender diversity of board members and financial performance

The gender diversity of board members is of particular interest, both in a national and international context in terms of exploring the concept of corporate governance but especially in research on its impact on the value of the organisation. Diversity constitutes a key pillar of board effectiveness. It provides the diversity of perspective, innovative thinking, and experience needed to effectively identify and mitigate potential risks and to develop efficient solutions within the company. A diverse board may ensure multiple perspectives to make better decisions (Alwawi, 2021).

Numerous theories underlying corporate governance address the influence of board gender diversity on organizational performance. Thus, agency theory explores whether female directors have a positive influence on the effectiveness of managerial monitoring (Wang *et al*., 2024). Ensuring the diversity of a board is the core of agency theory as it justifies the role of the board in the monitoring and control process. Consequently, the presence of gender diversity serves to mitigate the adverse effects of cultural dimensions on agency problems, thereby promoting a more optimal operational environment (Kabir *et al*., 2023; Pucheta-Martínez & Gallego-Álvarez, 2020). From the resource dependency theory's perspective, the board has certain characteristics that are dependent on facilitating resources and increasing firm value: analytical experience, independence, and gender diverse. Consequently, companies seek to appoint directors who possess these competencies in order to provide essential resources. (Wang *et al*., 2024; Kabir *et al*., 2023). Previous research has demonstrated that gender diversity on boards brings together stakeholders with different backgrounds and perspectives, creating a more diverse resource base. Thus, both the agency and resource dependency theories support the idea that female board directors provide effective monitoring and control (Wang *et al*., 2024; Chen *et al*., 2023; Eagly & Johnson, 1990, cited by Gherghina, 2017).

The correlation between financial performance and ensuring board diversity is a significant and debated topic in the academic literature. Chen *et al*. (2023) examining the impact of board gender diversity on financial performance in Taiwan over the period 1996-2017 find a significantly positive relationship between ROA and the number of women in the board of directors. Gherghina (2017) notes how the increase in organizational value is ensured by the existence of women in leadership positions, as they present different perspectives and new ideas. Empirical research conducted on the Romanian capital market does not present conclusive results regarding the importance of ensuring gender diversity on the board of directors related to company's performance. Analysing companies listed on BSE during the period 2012-2016, Ionașcu *et al*. (2018) find no positive correlation between women on boards and firm performance, arguing that the small number of female directors appointed on the boards of directors in Romanian companies is the factor that serves to diminish their capacity to exert influence over the decision-making process. Both Bojan (2022) and Mititean (2023) show that there is no statistically significant influence of gender diversity within the boards of directors of Romanian non-financial listed companies on the financial performance measured by ROA and ROE. Based on the evidence illustrated, the following hypothesis is formulated:

H4. *The percentage of female board members exerts a significant influence on financial performance.*

3. Research methodology

The objective of this research is to examine how financial performance is influenced by corporate governance mechanisms in the case of companies listed on BSE. Thus, it explores the interconnection between the financial performance of entities and corporate governance practices, essential elements in the value creation process that allows attracting new investors.

The scientific research method approached to achieve this objective is carried out both from a fundamental point of view through the lens of approaching the theoretical valences regarding the concept of corporate governance, that of financial performance, but also empirically through the lens of quantitative research. A quantitative approach is used to examine the research questions and hypotheses by empirically analysing the relationships between corporate governance mechanisms (independent variables) and corporate financial performance (dependent variables), also used by Mititean (2023) and Kyere and Ausloos (2021). Additionally, to validate the results, robustness tests were used. Thus, the regression analysis was applied based on two alternative measures of board gender diversity (Yarram & Adapa, 2024; Campbell & Mínguez-Vera, 2008).

3.1 The sample

This empirical research examines a sample of 48 non-financial companies, listed on the Bucharest Stock Exchange, on the main segment, observed over a period of 4 years, 2020-2023. The initial sample comprised 74 companies included in the regulated market. However, subsequent to the initial sampling, companies that provided insufficient data for the research or whose data were not available for the analysed period were excluded. In addition, entities in insolvency and the companies active in the financial sector were not considered. The exclusion of financial institutions and insurance companies was due to the different accounting standards applicable to these companies, which makes it difficult to compare financial performance with that of firms in other sectors. The companies included in the analysed sample are part of the following industries: manufacturing, extractive, hotels and restaurants, production and supply of electricity and thermal energy, gas, construction, health services, information and communications, transport and storage, trade with wholesale and retail, professional, scientific and technical activities.

Both financial and non-financial datasets were manually collected from the annual reports, available both on the BSE website and on the official websites of the companies. The reports were thoroughly reviewed using content analysis for the variables selected in the study so that no item was excluded while collecting the necessary information, to ensure the accuracy and credibility of the data. The collection, tabulation and initial processing of the data were carried out in Microsoft Excel software. Data was grouped by year, with a worksheet for each year, then a compiled worksheet was created for the 4 years to facilitate statistical analysis. The SPSS Statistics software was further used for statistical, correlation and regression analysis.

3.2 Research variables

Table 1 summarises the research variables. The dependent variables of this research are financial performance indicators. Researchers have used various indicators to measure the company's financial performance, both from accounting and market perspectives. For this research two accounting measures of financial performance were used as dependent variables: Return on Assets (ROA) and return on Equity (ROE). The choice of accounting instruments, to the detriment of stock market instruments for measuring financial performance was made in order to exclude investors' anticipation (Müller *et al.*, 2014).

The independent variables reflect corporate governance characteristics. Corporate governance is measured in the academic literature using different mechanisms, such as board characteristics, shareholding structure and audit committee characteristics (Alwawi 2021; Rostami *et al.*, 2016; Vintilă *et al.*, 2015; Rouf, 2011). Board characteristics considered in this study were board size, board independence, CEO duality and board gender diversity. Thus, the variable such as CEO duality was used to measure whether the CEO took over as chairman of the board. Also, variables such as the independence of board members and the share of women on the board were analysed to identify its structure.

In addition to these dependent and independent variables, a series of control variables were also considered in order to include the influence of other factors that may affect the financial performance of companies. The age of the company is analysed as the number of years since the listing date. Balasubramanian *et al.* (2010) consider that entities that do not have a long listing period record high performance. Another control variable was analysed to highlight the financial leverage, since listed companies have easier access to loans, due to the transparency of their information (Ghergina, 2017).

Table 1. List of variables

Variable name	Variable code	Measurement
Dependent variables for measuring financial performance		
Return on Asset	ROA	Net income/Total assets x 100
Return on Equity	ROE	Net income/Total equity x 100
Independent variables for measuring corporate governance		
Board Size	BS	Total number of directors on the board

Variable name	Variable code	Measurement
Board Independence	BI	Number of independent directors / Total number of directors
CEO Duality	CD	Dummy variable taking the value 1 if the CEO is also the chairperson, 0 otherwise
Gender Diversity	GD	Percentage of women on board
Control variables		
Firm Age	FA	Number of years since the company was listed
Leverage	LV	Total debts/ Total assets

Source: Authors compilation based on referenced studies (Mititean, 2023; Mihail et al., 2022; Kyere & Ausloos, 2021; Gherghina, 2017; Müller et al., 2014)

3.3 Regression model

A generic regression model is used to test the research hypotheses regarding the influence of corporate governance characteristics on performance. Based on previous research (Kyere & Ausloos, 2021) two regression equations are designed to analyse the relationship between corporate governance mechanisms and the company's financial performance:

$$ROA = \beta_0 + \beta_1 BS + \beta_2 BI + \beta_3 CD + \beta_4 GD + \beta_5 FA + \beta_6 LV + \varepsilon_i \quad \textit{Eq. (1)}$$

$$ROE = \beta_0 + \beta_1 BS + \beta_2 BI + \beta_3 CD + \beta_4 GD + \beta_5 FA + \beta_6 LV + \varepsilon_i \quad \textit{Eq. (2)}$$

4. Results

4.1 Descriptive statistics

Descriptive statistics are analysed to provide an overview of corporate governance, financial performance and control variables, further facilitating inferential statistical comparisons for non-financial companies listed on the BSE, during the period 2020-2023 (Table 2).

Analysing the dependent variables, average values of return on equity (ROE) of 7.09% and return on assets (ROA) of 4.92% are observed. The mean value for ROE is less than 10%, revealing that the companies do not effectively utilise investment funds to generate earnings growth. The minimum value for the return on equity ratio is -62.01%, which reflects the overall conclusion that most of the studied companies are operating in an unstable environment. This can be considered disadvantageous, particularly in the context of the unfavourable circumstances resulting from the global crisis characterising the 2020-2023 period. In terms of return on assets ratio, the minimum value is -24.63% and the maximum value is 68.10%, with a standard deviation of 8.43%.

Table 2. Descriptive Statistics

Variable	Min.	Max.	Mean	SD	Skew.	Kurt.
ROA	-24.63%	68.10%	4.92%	8.43%	2.090	17.373
ROE	-62.01%	85.00%	7.09%	13.73%	-0.028	10.034
BS	3	11	5.04	1.70	0.989	1.727
BI	0.00%	100.00%	37.28%	24.73%	0.197	-0.472
CD	0	1	0.34	0.47	0.688	-1.543
GD	0.00%	66.67%	18.01%	16.82%	0.623	-0.149
FA	3	20	14.02	4.76	-0.469	-1.074
LV	1.44%	80.90%	30.47%	19.05%	0.669	-0.251

Source: Authors' calculation using SPSS

For the independent variables, Table 2 shows that the average number of board members is 5, with a minimum of 3, and a maximum of 11 directors, in line with the Romanian Companies Act (Law no. 31/1990, updated) requiring a number between 3 and 11 members. The small number of board members ensures that interaction and communication is easily carried out. Company performance increases as it helps in guiding the staff of the organization for better results (Kiradoo, 2019). When the size of the board is too large, there tends to be less effectiveness in decision making on major issues that may arise among management supervision (Gokah, 2016). The percentage of independent directors averaging 37.28% suggests that most of the Romanian companies do not comply with the recommendation provided in the Implementation Guidelines of the Corporate Governance Code (BSE, 2015), that requires a minimum of at least a quarter of independent directors on the board. The CEO Duality, with the positions of CEO and chair of the board held by one individual is ensured, on average by 34% of Romanian companies, supporting the stewardship theory. The gender diversity of the board of directors of Romanian companies reaches, on average, 18%, with a range between 0% and 67%. The low share of women on the board of directors suggests that a significant number of companies do not adopt gender diversity principles in the representation of management structures.

Examining the control variables, it may be observed that the leverage variable (LV) is on average 30% signifying the indebtedness level of Romanian companies. The average listing period on the capital market is 14 years. The lower bound of 3 years signifies recently traded companies, while the maximum value is 20 years.

4.2 Correlation matrix

The correlations between corporate governance mechanisms and financial performance variables are studied to confirm whether the hypotheses predict the existence of a significant relationship between them. Pearson and Spearman linear correlation coefficients are reported in Table 3. Thus, the intensity of the relationships is observed by identifying correlations between financial performance indicators and corporate governance variables. The Spearman correlation matrix is presented below the diagonal, whereas for Pearson correlation the matrix is presented above the diagonal. The results obtained are presented in Table 3.

Table 3. Spearman and Pearson correlation matrix

Variable	ROA	BS	BI	CD	GD	FA	LV	ROE
ROA	1.000	0.102	-0.073	0.126	-0.136	-0.125	-0.137	
BS	0.152*	1.00	0.253**	-0.056	-0.074	-0.054	0.129	0.054
BI	-0.173*	0.281**	1.000	0.032	0.026	-0.066	0.074	-0.064
CD	0.068	-0.054	0.039	1.000	-0.021	-0.096	0.050	0.159*
GD	-0.093	-0.049	0.026	-0.041	1.000	0.035	-0.162*	-0.114
FA	-0.210**	-0.113	-0.065	-0.087	0.021	1.000	-0.016	-0.175*
LV	-0.092	0.047	0.093	0.054	-0.137	0.041	1.000	-0.103
ROE		0.160*	-0.149*	0.108	-0.102	-0.231**	0.060	1.000

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Source: Authors' calculation using SPSS

Findings show that both ROA and ROE are significantly correlated at a level of 0.05 with the size of the board of directors and its independence. Although there is a positive correlation in the case of board size, a negative correlation is established in the case of board independence. There is a positive but statistically insignificant correlation between CEO Duality and financial performance. A non-significant correlation is also established between board gender diversity and financial performance measured by both ROA and ROE, but negative. As for the control variable leverage, it exerts a negative and insignificant correlation with ROA and a positive and insignificant correlation with ROE. At a significance level of 0.01, a negative correlation was established between the control variable Firm Age (FA) and financial performance. Unlike the Spearman correlation, in the case of the Pearson correlation, a positive correlation can be observed, significant at a level of 0.05 between ROE and CEO duality.

The issue of multicollinearity between variables was also addressed by determining the VIF values, a method recommended by the literature (Abdullah & Tursoy, 2023; Affes & Jarboui, 2023; Guluma, 2021; Müller *et al.*, 2014). VIF is a variance inflation factor designed to test the correlation between independent variables (Müller *et al.*, 2014). It is considered that when the values are approximately equal to 1, the correlation among predictors does not cause serious multicollinearity and the regression model remains valid for predicting the relationship between independent and dependent variables. The autocorrelation between variables occurs when the VIF values exceed the value of 5 (Affes & Jarboui, 2023). Table 4 on possible multicollinearity between independent variables contains the VIF values for the regression model.

Table 4. VIF values for regression models

	BS	BI	CD	GD	FA	LV
VIF	1.095	1.079	1.018	1.034	1.016	1.047

Source: Authors' processing of SPSS Statistics results

The results show that there is no indication of multicollinearity between variables. The VIF values do not indicate significant autocorrelation problems regarding the independent variables analysed. Hence, they cannot cause instability in the empirical results, given the fact that VIF values are smaller than 5.

4.3 The influence of corporate governance on financial performance expressed through return on assets (ROA)

In order to support the objective of this empirical research, the regression analysis is used to examine the influence between corporate governance mechanisms and the dependent variables of the study, and its findings are further presented.

As a first step to analyse the link between corporate governance mechanisms and financial performance measured with return on assets, a regression was estimated by including all independent variables.

Table 5 provides an overview of the indicators that exert an influence on financial performance, expressed on a return on assets basis. Findings indicate that the only corporate governance mechanisms that exert a positive and significant influence on ROA are board size (β=0.702, p<10%) and CEO duality (β=2.352, p<10%). The board gender diversity variable exerts a negative and significant influence at the 5% level on ROA (β=-0.073).

Results on the validity of this model are highlighted in the notes to Table 5. Thus, the value of R^2 indicates that about 9.7% of the variation in the return on assets is explained by corporate governance mechanisms. There is a moderate relationship between the financial performance (ROA) and the governance variables, given that the value of R is 0.311. Since the significance level is 0.004 (<1%), and the Durbin-Watson value is close to 2, the regression model may be considered valid.

Table 5. Regression analysis: ROA - corporate governance mechanisms

Variables	Unstandardized Coefficients		t	Sig.
	B	Standard Error		
BS	0.702	0.362	1.937	0.054
BI	-0.035	0.025	-1.425	0.156
CD	2.352	1.254	1.875	0.062
GD	-0.073	0.036	-2.040	0.043
FA	-0.195	0.125	-1.560	0.120
LV	-0.080	0.032	-2.515	0.013

Notes. Variables are defined in Table 1. The ANOVA model summary: R=0.311; R^2=0.097; adjusted R^2=0.067; F statistic = 3.302 (p<1%); Durbin Watson=1.813

Source: Authors' processing of SPSS Statistics results

Results support the research hypotheses H1, H3, and H4 that corporate governance mechanisms have predictive power on financial performance measured with ROA.

Among the control variables, only the leverage exerts a statistically significant but negative influence (β=-0.080, p<5%). However, variables regarding board independence and firm age are not statistically significant, meaning that any changes in board independence and firm age of Romanian companies will not influence the financial performance of the company, measured with ROA.

To discuss the robustness of the results, the regression model was re-estimated by including only the variables with significant impact on ROA: board size, CEO duality, board gender diversity, and leverage:

$$ROA = \beta_0 + \beta_1 * BS + \beta_2 * CD - \beta_3 * GD - \beta_4 * LV + \varepsilon_i \qquad \textit{Eq. (3)}$$

Results presented in Tables 6 confirm previous findings and ensures the robustness of the analysis. Results on the validity of this model are highlighted in the notes to Table 6. R value of 0.276 reveals a weak relationship between the financial performance measured with ROA and the governance mechanisms included in the model. The R^2 value shows that 7.6% of the variation in ROA is explained by the three corporate governance mechanisms. The value for the validity of the regression model analysed of 3.845 and the significance level of 0.005 (<1%) mean that the constituted regression model is valid and may be used to explain the dependence between variables.

Table 6. Regression analysis: ROA - significant governance mechanisms

Variables	Unstandardized Coefficients		t	Sig.
	B	Standard Error		
BS	0.603	0.353	1.711	0.089
CD	2.462	1.254	1.963	0.051
GD	-0.077	0.036	-2.154	0.033
LV	-0.082	0.032	-2.573	0.011

Notes. Variables are defined in Table 1. The ANOVA model summary: R=0.276; R^2=0.076; adjusted R^2=0.056; F statistic = 3.845 (p<1%); Durbin Watson=1.765

Source: Authors' processing of SPSS Statistics results

According to Table 6, all indicators included in the regression model have a significant influence on the evolution of companies' financial performance, quantified by the return on assets. The impact of the two governance mechanisms, board size and CEO duality, remain positive, showing an increase in economic profitability for companies with larger boards and a CEO that is also the chair of the board. The impact exerted by the gender diversity of the board of directors remains negative, showing a decrease in economic profitability for companies with a higher percentage of women in the board of directors. The findings of the study examining the influence of board size on ROA align with those of the research conducted by Kyere and Ausloos (2021), Müller *et al*. (2014). Rostami *et al*. (2016) and Rouf (2011) also obtained empirical evidence regarding the impact of CEO duality on

ROA. Kabir *et al.* (2023) and Müller *et al*. (2014) found that the presence of women on the board exert a significant influence on ROA.

Concluding, the results validate hypotheses H1, H3 and H4, supporting the presence of a significant influence on financial performance, as quantified by return on assets of board size, CEO duality and board gender diversity.

4.4 The influence of corporate governance on financial performance expressed through return on equity (ROE)

The link between financial performance measured with return on equity and corporate governance mechanisms was tested using regression analysis. Similar to the previous case, all independent variables of the study were considered. Table 7 provides an overview of the indicators that exert an influence on financial performance, expressed on a return on equity basis.

Results on the validity of this model are highlighted in the notes to Table 7. Thus, the value of R^2 indicates that about 9% of the variation in the return on equity is explained by corporate governance mechanisms. There is a moderate relationship between the financial performance (ROE) and the governance variables, given that the value of R is 0.301. Since the significance level is 0.007 (< 1%), and the Durbin-Watson value is close to 2, the regression model may be considered valid.

Table 7. Regression analysis: ROE - corporate governance mechanisms

Variables	Unstandardized Coefficients		t	Sig.
	B	Standard Error		
BS	0.687	0.592	1.160	0.248
BI	-0.049	0.040	-1.207	0.229
CD	4.515	2.048	2.204	0.029
GD	-0.097	0.058	-1.660	0.099
FA	-0.458	0.204	-2.250	0.026
LV	-0.099	0.052	-1.909	0.058

Notes. Variables are defined in Table 1. The ANOVA model summary: R=0.301; R^2=0.090; adjusted R^2=0.061; F statistic = 3.064 (p<1%); Durbin Watson=1.885

Source: Authors' processing of SPSS Statistics results

Findings indicate that the only corporate governance mechanism that exert a positive and significant influence on ROE is CEO duality (β=4.515, p<5%). The board gender diversity variable exerts a negative and significant influence at the 10% level on ROE (β=-0.097). Results support the research hypotheses H3 and H4 that corporate governance mechanisms have predictive power on financial performance measured with ROE. Both of the control variables exert a statistically significant but negative influence: firm age (β=-0.458, p<5%) and leverage (β=-0.099, p<10%). However, variables regarding board independence and board size are not statistically significant, meaning that any changes in board independence and board size of Romanian companies will not influence the financial performance of the company, measured with ROE.

To discuss the robustness of the results, the regression model was re-estimated by including only the variables with significant impact on ROE: CEO duality, board gender diversity, firm age, and leverage:

$$ROE = \beta_0 + \beta_1{*}CD - \beta_2{*}GD - \beta_3{*}FA - \beta_4{*}LV + \varepsilon_i \qquad \text{Eq. (4)}$$

Results presented in Table 8 confirm previous findings and ensures the robustness of the analysis. Results on the validity of this model are highlighted in the notes to Table 8. Thus, the R value of 0.282 shows a weak relationship between the financial performance measured with ROE and the governance mechanisms included in the model. The R^2 value shows that 7.9% of the variation in ROE is explained by the two corporate governance mechanisms. The value for the validity of the regression model analysed of 4.029 and the significance level of 0.004 (<1%) mean that the constituted regression model is valid and may be used to explain the dependence between variables.

Table 8. Regression analysis: ROE - significant governance mechanisms

Variables	Unstandardized Coefficients		t	Sig.
	B	Standard Error		
CD	4.288	2.043	2.099	0.037
GD	-0.103	0.058	-1.780	0.077
FA	-0.456	0.203	-2.243	0.026
LV	-0.096	0.051	-1.875	0.062

Notes. Variables are defined in Table 1. The ANOVA model summary: R=0.282; R^2=0.079; adjusted R^2=0.060; F statistic = 4.029 (p<1%); Durbin Watson=1.857

Source: Authors' processing of SPSS Statistics results

All indicators included in the regression model have a significant influence on the evolution of companies' financial performance, quantified by the return on equity. The impact of the CEO duality, remain positive, showing an increase in economic profitability for companies where the CEO is also the chair of the board. These results are in accordance with stewardship theory. The impact exerted by the gender diversity of the board of directors remains negative, showing a decrease in economic profitability for companies with a higher percentage of women in the board of directors. The control variables of listing period and leverage also exert a significant and negative influence on ROE. When the trading period on the stock market is increased by one year, the return on equity decreases by 0.456% (Table 8). The negative effect exert by leverage on ROE means that when the percentage of the total debt to total asset increases, the financial performance will deteriorate because of the high debt. This outcome has also been reached through the findings of previous research conducted by Alwawi (2021), Guluma (2021), Diriba & Basumatary (2019), Muhammad (2016) when analysing the impact of board independence on firm performance. In regard to the effect of CEO duality on performance, the findings are in line with those reported by Rostami *et al*. (2016) and Rouf (2011). A negative impact exerted by gender diversity on performance was also obtained by Kabir *et al*. (2023).

Concluding, the results validate hypotheses H3 and H4, supporting the presence of a significant influence on financial performance, as quantified by return on equity of CEO duality and board gender diversity.

4.5 Robustness check

Following Yarram and Adapa (2024), Carmo *et al*. (2022), Dang *et al*. (2020), Lee-Kuen *et al*. (2017), and Campbell and Mínguez-Vera (2008) a robustness test of the results was conducted, including, in addition to the proportion of women on the board, the Blau index and Shannon index, as alternative measures of board gender diversity. These variables are calculated, with consideration given to the number of gender categories (two) and the uniformity of the representation of board members across these categories (Campbell & Mínguez-Vera, 2008). Blau index is measured as $1 - \sum_{i=1}^{n} P_i^2$, while the Shannon index is calculated as $-\sum_{i=1}^{n} P_i \ln P_i$, where P_i represents the percentage of board members in each category and n is the total number of board members. The calculation of these variables is based on the proportion of male and female directors, with the objective of ensuring the representation of both genders is balanced and inclusive within the board of directors (Yarram &Adapa, 2024).

Blau's index ranges from 0, indicating an exclusively male composition of the board, and 0.50, signifying an equilibrium between male and female directors (Dang *et al*., 2020). In contrast, the Shannon Index necessitates a value of 0.69 to indicate a fully balanced board (Yarram & Adapa, 2024). As indicated by the findings presented in Panel A of Table 9, the mean value of Blau index is 0.24, while the mean value of the Shannon Index is lower than the value of 0.69, given the fact that a considerable proportion of the companies included in the sample do not have any women on their boards or have only a small number.

Table 9. Robustness check results on alternative measures of gender diversity

Panel A. Descriptive statistics for Blau Index and Shannon Index

Variable	Mean	Standard Deviation	Min	Max
Blau Index	0.24	0.19	0.00	0.49
Shannon Index	0.36	0.28	0.00	0.68

Panel B. Regression – Dependent variable ROA		
Variable	**Model 1**	**Model 2**
Blau Index	-5.44 (0.081)	-
Shannon Index	-	-3.63 (0.095)
BS	0.78 (0.032)	0.81 (0.027)
BI	-0.03 (0.162)	-0.03 (0.161)
CD	2.32 (0.066)	2.32 (0.067)
FA	-0.20 (0.120)	-0.20 (0.112)
LV	-0.08 (0.016)	-0.08 (0.016)
R	0.30	0.30
R^2	0.09	0.09
F	3.10	3.06
Sig.	0.006	0.007
Panel C. Regression – Dependent variable ROE		
Variable	**Model 1**	**Model 2**
Blau Index	-6.44 (0.205)	-
Shannon Index	-	-4.11 (0.246)
BS	0.79 (0.185)	0.82 (0.171)
BI	-0.05 (0.231)	-0.05 (0.229)
CD	4.49 (0.030)	4.49 (0.030)
FA	-0.46 (0.025)	-0.47 (0.024)
LV	-0.09 (0.070)	-0.09 (0.073)
R	0.29	0.29
R^2	0.08	0.08
F	2.86	2.81
Sig.	0.011	0.012

Source: Authors' processing of SPSS Statistics results

As shown in Panel B of Table 9, results similar to those presented in Table 5 and Table 7 were obtained when using alternative variables to measure board gender diversity. Results regarding the influence of gender diversity on ROA remain the same when it's measured by both Blau Index and Shannon Index. Both indices are negatively related to ROA, with statistical significance at the 1% level. Yarram and

Adapa (2024) found that the gender diversity measured by the Blau Index and Shannon Index have a significant negative association with ROA, when analysing companies listed on Australian Securities Exchange. Similarly, Ahmad *et al.* (2019) found the proportion of women directors on board is negatively correlated with ROA. Wang *et al.* (2024) discovered a negative correlation between women on board and firm performance measured by ROA and ROE. The negative impact of board gender diversity on performance can be explained by the social barriers women face, especially in emerging countries, where the prevailing social paradigm indicates that women are often assigned to lower positions compared to men (Thomas, 2018).

Results presented in Table 9 show that gender diversity as measured by the Blau Index and Shannon Index has no significant influence on ROE. These findings contradict those obtained when the percentage of women on board is utilized as the independent variable. This can be attributed to the fact that the relationship between ROE and gender diversity measured by the percentage of women on board is not robust. The evidence supporting this relationship is weak, given that the p-value is 0.099. In this case, the results are in accordance with those of Solakoglu and Demir (2016), who posit that results may be influenced by the measures of board gender diversity used. Therefore, it can be posited that the presence of women on board does not have a direct impact on financial performance measured by ROE. This result coincides with those of Yarram and Adapa (2024) and Campbell and Mínguez-Vera (2008) when measuring the impact of board diversity measured with different variables has on firm value. Also, Carmo *et al.* (2022) found that the proportion of women and the Blau and Shannon indexes do not present statistically significant coefficients. Regarding the other corporate governance variables and the control variables, the results remained the same.

4.6 Discussion

Mixed results have been identified regarding the influence of corporate governance mechanisms on financial performance of Romanian companies for the 2020-2023 period, similar to previous scientific research that analysed this relationship.

In this research, board size was found to have a positive impact, significant in case of return on assets, but insignificant in case of return on equity. The regression model illustrates that a multi-member board structure may improve financial performance, thus the research hypothesis H1 may be accepted only when financial performance is expressed as return on assets, as the influence is statistically significant. Analysing Romanian companies, Dănescu *et al.* (2021) also indicate that the firm performance is positively influenced by board size. This result is in line with findings of studies conducted on developed countries. In UK, for example, Kyere and Ausloos (2021) and Müller *et al*. (2011) found a positive, significant relationship when analyse the impact of board size on the ROA variable for non-financial firms listed on London

Stock Exchange. Similarly, Orozco *et al*. (2018) identify a positive correlation between board size and financial performance among Colombian corporations situated within an emerging market framework. On the other hand, Duppati *et al*. (2017) find that the effect of board size on performance is significant, but negative in the case of Spanish and Irish listed companies. Contrary to the literature, which suggests that board size contributes to better performance, Purushottam (2019) and Alanazi (2019) also analysing emerging countries, respectively companies listed on the Indian stock market and on the Saudi Stock market found that board size does not exert a significant influence on financial performance as measured by ROA or ROE. While Alshirah *et al*. (2022) find that board size has a negative and significant effect on performance in context of an emerging economy-Jordan.

An insignificant and negative relationship was observed between directors' independence and financial performance. In light of the findings, the research hypothesis H2, which posits that the proportion of independent directors exerts a notable impact on financial performance, is rejected with regard to both measures of financial performance. This means that the independence of the board of directors has no influence on the financial performance (measured with both ROE and ROA) of the companies listed on the Romanian capital market. The results are inconsistent and cannot validate the research hypothesis H2, that an independent board would better supervise managers, mitigate information asymmetry between agents and owners, and improve firm performance based on their competence. Studies conducted by Mititean (2023), Borlea *et al*. (2017) confirm the lack of a significant influence of board independence on the performance of Romanian companies. These results are in line with many findings of studies conducted on other emerging countries. Analysing Greek listed companies Kalantonis *et al*. (2023) identified a negative impact of board independence on ROA. Alwawi (2021) argues that board independence does not exert significant influence on performance of Jordanian companies, while Guluma (2021) also indicates that board independence has no significant influence on firm performance measured with ROA, when analysing Chinese listed firms. Additionally, Diriba and Basumatary (2019) discover that there is no notable correlation between board independence and financial performance, as measured by return on assets, in the Indian context. Muhammad (2016) also shows that there is no significant relationship between board independence and financial performance (ROA and ROE), when comparing the developed and non-developed markets.

Going further, studies conducted in developed countries found different findings. Hence, in contrast to the results of this study, Kyere and Ausloos (2021), analysing non-financial companies in the UK show a positive and significant influence of board independence on return on assets, previously found by Müller *et al.* (2014). In line with this study, the research conducted by Duppati *et al.* (2017) reveals that for companies listed in Spain, the proportion of non-executive members does not have a significant influence on the companies, while for companies listed in Ireland the influence is negative and significant. Some research findings indicate that board independence has a positive and significant impact on performance, as well as from the perspective of a developing economy. Nur Lely and Indira (2022) present evidence that board independence exerts a positive influence on financial performance for companies traded on the Indonesian stock market for the period 2018-2019. Netai and Rehnuma (2018) reveal that there is a significant and positive relationship between board independence and financial performance measured by ROA. In terms of measuring financial performance through ROE, it is highlighted that there is no significant relationship between it and board independence.

Analysing CEO duality, a positive and significant impact on both return on assets and return on equity is observed. Considering the results obtained, the research hypothesis H3, on the power separation influence on the performance of companies, is accepted, but showing a direct rather than an indirect relationship for the 2020-2023 period. Studies conducted in emerging countries, found mixed results. In Romania, for example, Mihail *et al.* (2022) and Dănescu *et al.* (2021) show that the duality of the chairman has an impact on the value of the firm. While Kalantonis *et al.* (2023) and Dănescu *et al.* (2021) establish a positive influence of CEO Duality on firm performance, Mihail *et al.* (2022) found a negative effect for companies listed on BSE. Muchmore, research conducted by Mititean (2023) on Romanian companies shows that CEO duality does not have a significant impact on performance measured with ROA and ROE. Similarly, research conducted on other developing countries by Rostami *et al.* (2016) and Rouf (2011) illustrate a significant and positive influence of CEO duality on ROA, and on company's value, respectively, in line with this research. Muhammad (2016) reveal that there is a significantly positive relationship between CEO duality and financial performance measured with both ROA and ROE. Mixed results are found on developed countries. The results of Kyere and Ausloos (2021) show a positive but statistically insignificant influence on the return on assets in UK, in contrast to this study. The research conducted by Vintilă *et al.* (2015) on US Markets highlights the negative impact of director duality on return on assets, related to the idea that a higher power of the CEO may negatively influence the financial decisions. According to Duppati *et al.* (2017) research, in the case of Spain and Irland, CEO Duality exerts a negative influence on financial performance. Also, Guluma (2021) indicates that CEO duality exerts a negative but insignificant influence on performance quantified through ROA. This finding is in line with the agency theory which suggests that CEO duality could reduce the effectiveness of the board of directors, especially the monitoring function, leading to other agency problems and ultimately to the recording of poor firm performance.

Gender diversity is found to have a negative and statistically significant impact on both return on assets and return on equity for the Romanian companies during the 2020-2023 period. The research hypothesis H4 according to which there is a significant relationship between board gender diversity and company performance is accepted, considering its significant impact on both ROA and ROE. This result is in accordance with research conducted on developed countries. For instance, Kabir *et al.* (2023) found that board gender diversity exerts a statistically significant negative impact on ROA and ROE for companies across European countries. The results indicate that the percentage of women serving on corporate boards of European firms continues to represent a minority of the total number of male board members. Norway exhibits the highest percentage of female directors, while Slovenia is the only country that has established a minimum proportion of women on corporate boards compared to other European firms. Duppati *et al.* (2017) find that female representation on boards has a negative and statistically significant impact on performance when ROA is utilized as a performance measure, in the case of Spanish and Irish listed firms. When analysing firms in the UK, Brahma *et al.* (2020) and Muller *et al.* (2011) find that gender diversity exerts a positive, significant influence on ROA, indicating that the percentage of female directors has a notable impact on the performance of companies listed on the London Stock Exchange. This result provides support for the statement that the companies from countries with a more developed economy are more inclined to adopt policies that promote diversity on their boards of directors. Alshirah (2020) revealed that the representation of women on the boards of Jordanian companies has a positive, but statistically insignificant impact on corporate performance, as measured by ROE.

Prior research findings on Romania indicate discrepancies in the proportion of women occupying positions on the corporate board of directors when compared with developed economies. Mititean (2023), analysing non-financial companies, obtains a negative impact of gender diversity on the rate of return on assets, during the beginning of economic instability period, however, a positive but insignificant effect was found between the diversity and the rate of return on equity. Research conducted on an earlier period of time (between 2012-2016), by Ionașcu *et al.* (2018), on companies listed on the BSE shows that diversity does not have a significant impact on financial performance, that could be explained by the low number of women on the boards of Romanian companies during that period. Contrary to these results Mihail *et al.* (2022) shows that board diversity exerts a positive influence on the financial performance of Romanian companies.

5. Conclusion

The objective of this research is to empirically examine the relationship between various corporate governance mechanisms, measured by board characteristics, and diverse financial performance measures for non-financial companies listed on the BSE, during the period 2020-2023. It aims to clarify the importance of using corporate governance mechanisms in increasing financial performance of companies from a European emerging market. Most of the findings revealed a statistically significant relationship between corporate governance mechanisms and financial performance as measured by both ROA and ROE. However, not all corporate governance mechanisms, included in this analysis, had a significant impact on the financial performance, and therefore not all four research hypotheses could have been validated.

The size of the board of directors has a significant influence only on ROA, partially validating the first hypothesis. Many prior studies suggest that the independence of the board of directors affects the financial performance (Nur Lely & Indira, 2022; Kyere & Ausloos, 2021; Netai & Rehnuma, 2018; Müller *et al*., 2014). However, the second research hypothesis couldn't be validated, as the outcome of this study indicates that the independence of the board of directors does not exert a significant influence on the financial performance measured with ROA, nor ROE consistent with findings of Alwawi (2021), Guluma (2021), or Muhammad (2016). Muchmore, both CEO duality and board gender diversity are found to exert a significant influence on the financial performance measured by both ROA and ROE, validating the third and fourth research hypotheses. Results on the influence of CEO duality on financial performance are similar with Rostami *et al*. (2016), Muhammad (2016), and Rouf (2011). In contrast to a number of prior studies conducted on the capital market in Romania, which indicate that gender diversity on the board exerts an insignificant influence (Bojan, 2022; Ionașcu *et al*. 2018), this research shows a significant but negative influence, which aligns with the outcomes obtained by Kabir *et al.* (2023). Given that the predictive power of the regression models was not very high, there is a possibility that other factors may affect financial performance, additional to corporate governance mechanisms considered in this study. This sheds light on the lack of managers' awareness of the importance of corporate governance for attracting new investors. Variables used to express corporate governance mechanisms that have a negative impact may be explained by the costs they involve and that reflect on entity's performance. They lead to a decrease in profit influencing the financial performance of the company.

The results of this study may contribute to managers' and legislators' understanding on which of the mechanisms of corporate governance influences financial performance. With important implications for the business environment, it provides a new perspective on this topic, from an emerging country approach. Findings may help managers identify the corporate governance mechanisms that affect the success and growth of their companies and may inspire them to apply and comply with corporate governance rules and regulations. These findings can also be of use to legislators in the implementation process of those corporate governance mechanisms that would contribute to the country's economic growth. Muchmore, shareholders may easily select those companies which have adopted and are applying the best corporate governance practices, while creditors may identify evidence allowing them to allocate funds to companies that comply with the corporate governance practices. Therefore, the findings of this study may contribute to social change by motivating and encouraging company's management to adopt the most effective corporate governance practices in order to effectively utilise the company's resources, whilst also mitigating conflicts of interest among different stakeholders, as underlined by stakeholders' theory.

Concluding, consistency of previous research' results, that the global financial crisis and major corporate scandals have reinforced the merits of good corporate governance structures in improving the financial performance of companies, is still supported by this research conducted in times of global economic instability generated by black swans such as pandemics or wars. Therefore, managers need to accept that it is imperative to design a robust business model to ensure the effectiveness of corporate governance mechanisms. It stimulates economic growth, enhances investor confidence, and has a positive impact on the internal efficiency.

The main limits of this study reside on the relatively small sample of only 192 company-year observations and the short period of only four years. The research was also limited to presenting financial performance only from the accounting perspective. Future research may extend the analysed period, also considering a difference-in difference analysis for economically stable vs instable periods or utilize market-based measures of financial performance. Muchmore, different mechanisms of corporate governance may be considered, along with an analysis of financial versus non-financial companies. The sample may also be extended to companies from other European emerging countries for a comprehensive analysis.

Acknowledgment

This paper was co-financed by The Bucharest University of Economic Studies during the PhD program. The first version of the paper was presented at the International Conference on Economics - Challenges and Opportunities (ICECO 2025). The authors appreciate peers' insightful recommendations. Special thanks are addressed to the anonymous reviewers for the helpful comments and the constructive remarks.

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