

Correlation between Corporate Governance and Financial Performance

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Abstract

This paper aims to highlight the impact that corporate governance variables have on companies' financial performance, being based on a set of significant previous scientific studies. The developed econometric model involves identifying the existence and the type of dependence between several key corporate governance variables (the size of the Board, the percentage of independent directors in the total number of directors, the frequency of meetings at management level, dividends and capital structure) and financial performance of the company, represented by the performance indicator - ROE (return on equity). Also, for the accuracy of the model, we have chosen companies operating only in one market, namely the European banking system. Subsequently we have chosen a set of 30 banks, for which we have analyzed the annual trends for the period 2009 - 2013.

Key Words: *corporate governance, financial performance, board, audit, independent director, dividends, banking system*

Introduction

The importance of corporate governance has increased in the latest years, mainly due to the global financial crisis that bursted in 2007-2008. Even though the macroeconomics factors (like relaxed monetary policies), that stay at the origin of the crisis, have affected all the companies (Taylor, 2009)¹, some of them were affected more than others. This is why, recent studies argue that the management policies have had a significant impact over the degree of which the firms were affected by the crisis (Brunnermeier, 2009). Because these policies are the result of some cost-benefit trade-offs made by the boards of directors, an important conclusion is that the corporate governance is the key factor that affected the firms' performance during the crisis².

The gradual collapse of the financial markets in the European Union starting with the fall of 2008 and the crisis that followed in the loan/investments portfolio were caused by several factors, often interrelated, as mentioned in the above lines. "This excessive accumulation of risk was partly caused by shortcomings in matters of corporate governance of financial institutions, especially bank deficiencies."³ Thus, at an European level, various studies were proposed regarding the management structures and internal audit committees, risk management, remuneration, etc; These studies were completed with the publication of "The Green Paper on Corporate Governance in Financial Institutions and Remuneration Policies".

Even if not corporate governance was the main factor that triggered the crisis, still, the lack or inadequacy of effective control mechanisms ultimately led to excessive risk taking by most credit institutions.

Taking all this into account, plus the financial scandals that affected some of the world-known companies (like Enron, WorldCom or Lehman Brothers), we can see how closely related corporate governance and financial performance are. Firms with good governance are supposed to provide transparent information and control decisions. Therefore, since better governance enables firms to access capital markets on better terms, "healthy" practices of governance have a positive effect on the company and its market development.

All in all, despite the multitude of factors that may affect the financial performance of a company (factors like: indebtedness, taxation, rates of rotation, etc.) and based on previous studies, I have decided to analyze, in this paper, the impact of corporate governance on financial performance of firms and for the accuracy of the econometric model proposed, I have chosen companies that activate in only one sector, namely, the European banking sector.

¹ By providing empirical evidence that management actions and interventions caused, prolonged and worsened the financial crisis. They caused this, deviating from historical precedents and principles for setting interest rates, which have worked for granted for the last 20 years. They prolonged the crisis without detect problems in the banks' credit markets and thereby responding inappropriately by focusing on liquidity rather than risk

² Kashyap et al., 2008 – argue that governance problems of banks and short-term indebtedness were the foundation of the financial crisis

³ The 2006/48/EC Directive of the European Parliament

Literature Review

Further on, we will give a briefly description of the concepts of corporate governance and financial performance, as they were defined over time.

Corporate governance covers a wide range of fields, from economics and information theory, to law, accounting, finance, management, psychology, sociology and politics. This concept describes all the influences affecting the institutional processes, including the appointment of auditors or regulators involved in the organization of production and sale of goods and services (Turnbull, 1997).

Although corporate governance is closely related to the management and the structures of an entity, in the specialized literature (Bunget et al., 2009) it is recognized that this concept includes within, important issues related to social responsibility and ethical business practices. Also, corporate governance has a very wide connotation, including elements such as transparency of internal and external audit, existence of very tight deadlines for financial reporting, responsibility for the veracity of the information presented in the financial statements, or communication and full transparency upon the financial results.

Moreover, various Romanian authors analyzed the concept of corporate governance. In 2011, one of them claiming that "corporate governance is a set of "rules of the game" by which companies are managed and supervised by the Board of Directors, in order to protect the interests of all the parties. However, it indicates the distribution of rights and responsibilities between various participants in a company and specifies the rules and procedures for making the right decisions for the entity. Thus, corporate governance provides the structure through which the objectives of a company are set and the means of achieving them and monitor performance". (Feleaga et al., 2011).

As it can be easily seen, the term of corporate governance has received many definitions over time. Thus, we have summarized in the following table a few that we considered significant.

Table 1: *Definitions given to the concept of Corporate Governance*

Year	Author	Definition
1984	Tricker B.	CG refers to the manner in which companies are governed, which is different from the way business is conducted on a daily basis. CG deals with issues facing the Board, such as interaction with executive management and the relationship with shareholders or those who have an interest in the business.
1997	Shleifer & Vishny	Emphasize the financial aspects of corporate governance in their work and define corporate governance as the way in which suppliers of funds of a company ensure that they receive appropriate benefits from the investment.

Year	Author	Definition
1998	The World Bank	Governance is a set of laws, rules, regulations and codes of conduct tailored voluntarily and allowing an entity to attract its business resources.
1998	Kontrag	CG -> regulation and control transparency of annual reports. The administrator must ensure the maintenance of adequate risk management and internal control monitoring. Also, the obligation of the Board of Directors to issue financing, investment and personnel planning.
2002	Hofstetter	All organizational and structural problems of the entity that directly or indirectly protect the shareholders. Also, CG is concerned with organizational issues and management control.
2004	OECD	CG is a key element to improve efficiency and growth, as well as expansion of investor confidence. CG involves a set of relationships established between the company's management, its board of directors and shareholders. CG also provides a structure through which the company objectives are set, and the means of achieving them and monitor performance are determined.
2009	Ghita M. & al.	Overall management of the entire organization by accepting all internal components operating together, that will ultimately be integrated and implemented through risk management within the organization, financial management system and internal control, including internal audit.
	IFAC	Launched a more general definition, namely: CG is a set of practices of the Board and executive management aimed to provide strategic direction, achieving goals, accountability of financial and risk management of the entity.

Referring to the concept of **Financial Performance** and studying the specialized literature, we have noticed that, over time, have been identified several issues related to measuring the financial performance of an enterprise. Most studies have used financial performance in terms of profitability (Shen and Chang 2009), but there have been studies that have addressed the concept in terms of risk (McGuire 1988). We have also investigated the determinants of enterprise performance in particular. Noel Capon, John U. Farley and Scott Hoenig, conducted in 1990, a broad overview of grouped studies over these determinants, among which we can mention: firm size, the prices used, liabilities, control, market share, industry concentration, capital investment, etc.

Thus, the definition of performance has had a nonlinear evolution over time, existing some significant conceptual gaps. In the following table we have summarized some of the relevant definitions given to this concept:

Table 2 – *Evolution of Performance over time*

Year	Author	Criteria
During 1957-1972, the performance is defined predominantly in terms of qualitative criteria being issued at the expense of clear definitions or theories		
1964	Caplow	Stability, integration and achievement.
1968	Price	Productivity, morality and institutionalization.
1968	Friedlander și Pickle	Profitability, employee satisfaction and value for society.
1969	Mahoney și Weitzel	Productivity, initiative, planning, cooperation, quality of personnel and development.
1970	Schei	Flexibility, communication and creativity.
1973	Duncan	Performance is equated with achievement in connection with the integration and adaptation of the organization.
1973	Gibson	Defines the concept as the combination of efficient performance, satisfaction, flexibility, survival and development.
1974	Child	Focuses on two elements: profitability and growth.
1974	Harisson	Considers performance as "the final result of the application of effort."
1974	Shashua and Goldschmidt	Performs first model for financial performance indicators such as rates of return or profit margin.
1976	Klein	Characterizes the concept of performance with the following indicators: return on capital employed, value added growth of fixed assets, financing of the needs of the working capital.
1979	Dubois	Assess the economic and financial performance in terms of added value, profitability (reporting gross operating surplus in turnover), productivity, leverage and solvency.
Since 1990, the performance is seen in the level of achievement of objectives		
1995	Annick Bourguignon	Defines performance in terms of achieving organizational objectives. This definition indicates a certain criteria by which theories on performance are separated: the reference to the reported result.
1995	P. Lorini	Provides a different dimension in economic value added performance which traditionally is obtained by calculating the difference between net operating profit and total cost of capital used.

Among the many global studies related to this topic, we can also include a few Romanian authors who have tried to prove the existence of certain influences on financial performance of the company. We can mention Vintilă Georgeta, Armeanu Stefan Lazar Paula and Moscalu Marica who recently conducted a study on the impact of social responsibility on the financial performance of the company, obtaining a linear relationship between the variables or Stancu Ion, Stancu Dumitra and Oproi Alexander, who conducted a study that revealed determinants of enterprise performance. Thus, from an econometric study, they concluded that the net margin, asset and customers rotation and return on equity in the previous quarter have a strong impact on the financial profitability of the company.

Also, the performance can be defined internally or externally, very often the two plans offering different results. Internally, performance is viewed primarily through objectives and financial results, but externally acquires a connotation directed towards society.

Empirical Review

Moving on, we will summarize some previous significant studies both nationally and internationally, that have addressed the issue of correlation between the elements of corporate governance and financial performance of companies.

In the first presented scientific paper, it is provided a correlation in terms of size of the Board. Thus, Jensen (1993)⁴ believes that it is easier for a small council to monitor the actions of the Executive Director, while councils composed of a large number of members are more easily handled by the Executive Director, as within them is greater emphasis on courtesy and politeness. Studies also show that board size should be directly related to the management earnings.

There are numerous writings about the effect that board structure has upon the company's performance. Councils dominated by external members are undoubtedly in a better position to monitor and control managers (Dumm, 1987). Outside directors are independent director of the company and, in addition, provide a wider range of experience to the company (see Firtenberg and Malkiel, 1980 Vance, 1983). Several studies have linked the share of independent directors, financial performance and shareholder wealth (see Brickley et al., 1994, Byrd and Hickman 1992; Subrahmanyanel, 1997 Rosenstien and Wyatt, 1990). These studies have concluded that when independent members represent a significant percentage of the total number of board members, financial results are better.

Since some previous studies have failed to find a positive relationship between corporate governance ratings and company's performance, although, according to the agency theory⁵ it is expected to exist, Annelies Renders, Ann Gaeremynck and Piet Sercu conducted a study⁶ to establish the existence of this link. Due to the limitation of information on corporate governance of companies (except very large companies listed on the stock exchange) and difficulties involved in creating a selection large enough to be relevant in studying, finally, the authors chose to create a selection of companies in Europe (and not in the U.S., as most previous studies) because of the changes in the ratings of corporate governance at the country level, and legal standards, thus providing a greater statistical power than data from a single country. The authors have characterized financial performance by the values of the following indicators: Tobin -Q, the share market ratio, market to book value, ROA and ROE and corporate governance scores were taken based on data from "Deminor Rating": management structure, shareholder rights and transparency. Thus, they concluded that there is a significant positive correlation between financial performance and corporate governance ratings.

Rob Bauer, Nadja Guenster and Roger Otten examined whether good corporate governance leads to a higher share price and increases the value of companies in Europe. They built a portfolio of well managed and poorly managed companies and compared their performances. The impact of corporate governance on corporate performance is also

⁴ Jensen, M. C. 1993 - 'The Modern Industrial Revolution, Exit and the Failure of Internal Control Systems.'

⁵ Jensen & Meckling (1976)

⁶ Annelies Renders, Ann Gaeremynck, Piet Sercu –, 'Corporate-Governance Ratings and Company Performance: A Cross - European Study'

compared. The results show a positive relationship between financial variables and corporate governance. Their conclusion points out that the relationship found is different depending on the strength and level of development of the selected countries.

Another study conducted in 2012 by Georgeta Vintilă and Stefan Cristian Gherghina⁷, analyzes the relationship between the independence of the Board, the Executive Director's duality and firm value. To determine the relationship between the mentioned variables, the authors used a panel data model on the companies listed at the Bucharest Stock Exchange, between 2007-2011. The findings were not very conclusive, the threshold of significance of the variables being quite high. In any case, the result shows a positive influence of both independent directors on firm value (with a threshold of 47.23%) and the duality of the Executive Director on the value of Tobin -Q.

As mentioned above, the objective of this paper is to provide an overview of the possible influence that key players of corporate governance – the size of the board of directors, independent directors, auditors and shareholders, could have on the banks' financial performance in Europe. I believe that this goal is one of great importance, taking into account the growing number of failures in government and corporate scandals affecting the banking environment, that we can say that contributed to the recent financial crisis and has made corporate governance a controversial topic.

Therefore, I have made an analysis of the most important studies that have had as research themes, the variables mentioned.

Although, as we have seen in some of the studies mentioned above, there exists a dependency between management structure and performance of an enterprise, in two studies made upon the banking sector⁸, this link appears to be weak or non-existent, while in another study⁹, using panel data techniques, it was found that unlike previous theories, which predict that small structures are more efficient in administrating, increasing the number of directors of banks does not lead to poor performance. Instead, the evidence is in favor of a positive relationship between the board size and performance measured by Tobin's Q and return on assets. Still, in 2009, Pathan¹⁰ studies the evolution of 1534 banks between 1997 and 2004 and demonstrates that small boards do affect the financial performances in a positive manner.

Other conflicting studies refer to the country of origin of the CEO. Thus, in developing countries, it was found a positive relationship between a director's foreign nationality and bank performance - the study¹¹ being conducted in the countries of North and East Africa, with a total of 567 observations from 2000-2002 and the authors demonstrated that banks that state as majority ownership have the lowest performance, while foreign banks show an increase in performance. On the other hand, in well-developed countries, the

⁷ Vintila, G., Stefan, G. – „Board of Directors Independence and Firm Value: Empirical Evidence Based on the Bucharest Stock Exchange Listed Companies”

⁸ Pi, Li and Timme (1993) – “Corporate Control and Bank Efficiency” si Adams, R and Mehran, H (2004) – “Board Structure and Banking Performance”

⁹ Melkhir, M (2009) – “Board of Directors' Size and Performance in the Banking Industry”

¹⁰ Pathan, S. (2009) – „Strong Boards, CEO Power and Bank Risk-taking”

¹¹ Nada, K. (2005) – “Ownership Structure and Bank Performance: Evidence from the Middle East and North Africa”

relationship is negative, according to the study made by R. DeYoung¹² upon U.S. banks in 1996.

The next presented study¹³ is performed on Romanian banking sector in 2011 and examines the impact of corporate governance on bank performance. In the study, the author found positive relationships between financial performance and governance's following terms: male executives, directors from European Union countries, the existence of independent members in the Board. The only negative correlation was found between the structure of shareholders (individuals) and performance. Furthermore, the management size was found to be neutral in this case.

Another recent study¹⁴ (2013) conducted on banks operating in Romania, sustains the results mentioned above. The authors concluded that there is a dependency between the directors of foreign nationality, the existence of independent members of the Board, and bank performance. Furthermore, the authors argue about the major importance of corporate governance for a good operational and financial stability.

¹² DeYoung, R. and Nolle, D.E. – “Foreign-owned banks in the US: buying market share or earning it?”

¹³ Stefanescu, C.L. – “Do Corporate Governance “actors” feature affect banks’ value? – Evidence from Romania”

¹⁴ Chitan, G., Dedu, V. – “The influence of internal Corporate Governance on bank performance – an empirical analysis for Romania

Econometric Study

The following econometric model aims to identify direct or indirect dependencies between the variables used. It is intended to assess the correlations between variables of corporate governance and financial performance of the enterprise. For this panel data regression model were used annual series (2009-2013) of 30 companies in the European banking sector. The program used to generate the data is Eviews.

Over the input series in Eviews, we can apply mathematical operations. The most used are the logarithm and the first difference. Except series that have negative values, the econometric analysis is performed with logarithmic series, because logarithms facilitate interpretation of the coefficients obtained.

Thus, in this analysis, we have used the following endogenous variables (dependent):

- **The size of the Board**, data on which we have applied logarithmic function to allow comparison with other variables, and also the first difference - **d_board**;
- **Percentage of independent directors in the total membership management - dir_indep**;
- **Percentage of granted dividends from earned profits - div**;

Furthermore, we have used three dummy variables, namely:

⇒ **Duality of Executive Director and the Chairman of the Board – dual**

- 1, if the president is not the chief executive;
- 0, if the President is also the chief executive;

⇒ **Number of annual meetings of the Audit Committee – Audit**

- 1, if there were at least four annual meetings;
- 0, in any other case.

⇒ **The company's capital structure - struct_cap**

- 0, for private companies;
- 1 for public companies;
- 2 for combined ventures.

The exogenous variable (independent) of the model is ROE, which is a measure of financial performance of the company - **ROE**.

Taking into account that in the first model performed, the capital structure demonstrated to be statistical insignificant (having a probability of error of 72.73%) for the sample used, we have decided to take it out of the analysis in order to have an accurate an exact model.

Please see the results in the following figure:

Figure 1: *Output Views - Model with Common Effects*

Dependent Variable: ROE
Method: Panel Least Squares
Date: 05/13/14 Time: 11:51
Sample (adjusted): 2010 2013
Periods included: 4
Cross-sections included: 30
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.026451	0.035139	-0.752751	0.4532
AUDIT	0.062552	0.025498	2.453190	0.0157
D_BOARD	-0.351940	0.164133	-2.144242	0.0341
DIR_INDEP	-0.161734	0.070534	-2.292989	0.0237
DIV	0.380479	0.065267	5.829555	0.0000
DUAL	0.053653	0.022693	2.364276	0.0198
R-squared	0.378753	Mean dependent var		0.027516
Adjusted R-squared	0.351505	S.D. dependent var		0.140982
S.E. of regression	0.113531	Akaike info criterion		-1.464768
Sum squared resid	1.469389	Schwarz criterion		-1.325393
Log likelihood	93.88607	Hannan-Quinn criter.		-1.408167
F-statistic	13.90035	Durbin-Watson stat		1.592293
Prob(F-statistic)	0.000000			

Estimating the parameters of the new common effects regression model, through the OLS method, we have obtained the above results, namely:

- Constant term (C) shows the existence of an inverse dependence between it and the ROE variable when the other variables are 0; Of course this assumption is not economically correct, given that all of these factors (along with many others, such as indebtedness, taxes, rotation speeds of suppliers, customers, inventory, etc.) contribute to the final performance of an enterprise;
- Audit dummy variable coefficient has a positive value, indicating a direct correlation between it and ROE, meaning that an effective internal control finally leads to a better result of the company;
- Considering the negative result of the coefficient Board Size, there will be a reverse dependence between it and ROE, meaning that a larger board will result in an unfavorable financial result;
- A negative relationship results also from the proportion of independent directors in total board, which indicates their negative influence on the value of ROE;
- The percentage of dividends variable is positive, which means that the impact on financial performance is positive; the existence of dividends means a good result of the company, increasing the investors' confidence in the future of the company;
- The last dummy variable, namely the duality of the CEO and the president has a positive value, which means it has a positive impact on the company's performance, fact that is in accordance with the rules of corporate governance that support differentiation of CEO and Chairman of the Board.

Analysing the meaning of the five parameters introduced, we can see that all of them are statistically significant, from having probabilities below the significance threshold of 5%.

The value of **Adjusted R-squared** indicates the proportion of the total variance of the dependent variable ROE, which is explained by the independent variables, meaning how much influence these variables have, upon the model chosen for validation. The report can only take values in the range [0,1]; The values that are closer to 1, meaning that the model is better. In the present regression, it was obtained a value of 35.15% for R -squared. This result being a reasonable one, given the multitude of other factors that determine a firm's financial performance (leverage, taxation, rotation speeds of suppliers, customers, inventory, etc.).

Also, note that the model is a valid one, the error's probability of F -statistic being 0%.

Furthermore, the Durbin–Watson test has a value of 1.6 (very close to 2), which indicates a low probability of autocorrelation existence between the values of the residual variables, meaning that the parameters mentioned above are effective to be used in the regression model.

Moving on, we have estimated the regression models with fixed and random effects. Please see the results and the changes occurred, in the following figures:

Figure 2: *Fixed Effects and Random Effects models*

Dependent Variable: ROE					Dependent Variable: ROE				
Method: Panel Least Squares					Method: Panel EGLS (Cross-section random effects)				
Date: 05/13/14 Time: 13:36					Date: 05/13/14 Time: 13:46				
Sample (adjusted): 2010 2013					Sample (adjusted): 2010 2013				
Periods included: 4					Periods included: 4				
Cross-sections included: 30					Cross-sections included: 30				
Total panel (balanced) observations: 120					Total panel (balanced) observations: 120				
					Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.231780	0.115445	-2.007708	0.0479	C	-0.044665	0.044925	-0.994224	0.3222
AUDIT	0.076991	0.028487	2.702713	0.0083	AUDIT	0.067209	0.025252	2.661569	0.0089
D_BOARD	-0.375784	0.158004	-2.378322	0.0196	D_BOARD	-0.341106	0.150626	-2.264585	0.0254
DIR_INDEP	0.249063	0.232911	1.069350	0.2879	DIR_INDEP	-0.125790	0.091659	-1.372359	0.1726
DIV	0.403561	0.105960	3.808606	0.0003	DIV	0.379900	0.073860	5.143536	0.0000
DUAL	0.102236	0.119676	0.854275	0.3954	DUAL	0.053017	0.030179	1.756747	0.0816
Effects Specification					Effects Specification				
Cross-section fixed (dummy variables)					S.D. Rho				
R-squared	0.642023	Mean dependent var	0.027516		Cross-section random		0.059726	0.2637	
Adjusted R-squared	0.498833	S.D. dependent var	0.140982		Idiosyncratic random		0.099805	0.7363	
S.E. of regression	0.099805	Akaike info criterion	-1.532696		Weighted Statistics				
Sum squared resid	0.846695	Schwarz criterion	-0.719678		R-squared	0.321211	Mean dependent var	0.017642	
Log likelihood	126.9618	Hannan-Quinn criter.	-1.202526		Adjusted R-squared	0.291440	S.D. dependent var	0.117778	
F-statistic	4.483696	Durbin-Watson stat	2.728566		S.E. of regression	0.099141	Sum squared resid	1.120493	
Prob(F-statistic)	0.000000				F-statistic	10.78924	Durbin-Watson stat	2.076755	
					Prob(F-statistic)	0.000000			
					Unweighted Statistics				
					R-squared	0.377055	Mean dependent var	0.027516	
					Sum squared resid	1.473405	Durbin-Watson stat	1.579328	

FE Model: As it can be seen, the model is a valid one (probably F-statistic <5%) and the percentage of Adjustd R-squared increased to 49.88%, but the significance of two independent variables decreased, namely:

- Prob (dir_indep) = 28% > 5%
- Prob(dual) = 39% > 5%

RE Model: In this case also, the model is a valid one. We can still observe a decrease in the significance of the two variables: dual and dir_indep, but much smaller than the fixed effects model, namely:

- Prob(dir_indep) = 17% > 5%
- Prob (dual) = 8% > 5 %

Moreover, we can see an improvement of the Durbin-Watson test, which reached a value of 2.07, indicating the absence of autocorrelation between the values of the residual variables.

In order to choose between the two models presented above, we have used the Hausman Test, with the following hypothesis:

- { H0 – RE model is more efficient;
- { H1 – FE model is more effiecient.

Figure 3: *Hausman Test*

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.486729	5	0.6254

Since the probability of the Hausman test is 62.54%, being greater than the significance threshold of 5%, we have concluded that the Random Effects model is more efficient than the Fixed Effects one.

In order to obtain an accurate result of the analysis performed, we have also decided to take out of the model the variable dir_indep. No other changes appeared in the last version of the model.

Conclusions

We have thus obtained a valid econometric model from which we have removed the following variables: the percentage of independent directors in total company's management and capital structure, variables that were shown to be statistically insignificant for this sample.

In the case of independent directors, the study contradicts other previous studies such as the study made by M. Daily and R. Dalton in 1995, according to which the relationship between the percentage of independent directors and ROE would be positive, and a more recent one (2012) of Mrs. Georgeta Vintila, who analyzed the relationship between the proportion of independent directors and firm value, concluding that a positive relationship exists between the variables. However, the probability of error is high (47%).

Moving on to the firm's capital structure, the result is consistent with two previous studies conducted in 1980 by Jacquemin and Ghellinck on 100 French companies, concluding that any type of capital structure did not affect the performance of the respective companies. And the second one, made in 1997 (Loderer and Martin) also demonstrated a lack a relationship (statistically significant) at the level of U.S. companies. However, we have also examined several other previous studies demonstrating that a relationship does exist between these variables. Thus, in 1995, McConnell and Servaes analyzed a number of 700 companies listed on NY Stock Exchange, and their conclusion was that private companies have a better outcome.

As for the significant variables, we have obtained the following results:

- The relationship between the size of the Board and ROE is negative, the same result being obtained in other previous studies, including Yermack in 1996, and in recent research - Morten Bennedsen Hans Christian Kongsted Kasper Meisner Nielsen in 2007;
- The influence of granted dividends on financial performance is positive; This indicating the existence of a good outcome of the company, thus increasing investors' and owners' confidence in the future of the business;
- The existence of a direct relationship between the frequency of audit committee meetings and ROE, which is strongly supported by corporate governance codes;
- A linear relationship between duality and ROE occurred, this result being consistent with other previous studies, including the study made by Firth M. and P. Fung in 2007 on the need to differentiate the CEO from Chairman, but also with the principles of corporate governance required by the OECD.

Although the main barriers identified that prevent the implementation of a system of governance in a company were the high costs, the benefits would definitely overcome these obstacles, while an efficient governance system means attracting more capital and a greater degree of confidence. Increasing transparency in the investors' relationships and high quality financial reporting are key elements that can influence potential investors to assume the risk of investing in a business.

The importance of corporate governance will keep on increasing in the following years, as companies want to remain competitive in an ever changing market, and an effective corporate governance system could be an asset to attract both financial and human capital.

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