CECCAR BUSINESS REVIEW
ISSN 2668-8921 • ISSN-L 2668-8921
Nº 12/2022
www.ceccarbusinessreview.ro

The Relationship Between Corporate Governance Mechanisms and Financial Institution Performance. A COVID-19 Perspective

Dr. Pompei MITITEAN
Bucharest University of Economic Studies, Romania

Abstract

This article assesses the possibility of a relationship between corporate governance mechanisms and financial institutions performance in an emerging country such as Romania. The sample consists of 30 financial institutions and the data were collected manually from the annual reports. The size of the board, the size of the executive board, the diversity of the gender of the board, the duality of the CEO and the size of the audit committee were chosen as metrics for corporate governance, while ROA and ROE were chosen as metrics for financial performance. The SPSS statistical program was used to run the regression model on the selected sample. We found mixed results. The regression results suggest that board size, executive board members, and CEO duality support hypotheses H1, H2 and H4 and have a positive impact on the firm's performance, both measured by ROA and ROE. Therefore, hypotheses H3 and H5, regarding an association between board gender diversity and audit committee size and financial institution performance, are rejected, having a negative impact during an uncertain time on ROA and ROE. The results contribute to the existing literature and may help the third parties to better understand the correlations between corporate governance mechanisms and the performance of the financial institutions.

Key terms: corporate governance, financial performance, emerging European country, financial institution

JEL Classification: M41, G34, G39

To cite this article: Pompei Mititean, *The Relationship Between Corporate Governance Mechanisms and Financial Institution Performance. A COVID-19 Perspective*, *CECCAR Business Review*, Nº 12/2022, pp. 55-65, DOI: http://dx.doi.org/10.37945/cbr.2022.12.06

1. Introduction

The corporate governance topic has been extensively debated at both national and international levels in the last 12 years, especially in Romania, when the Bucharest Stock Exchange Code of Corporate Governance was introduced for the first time. Furthermore, corporate governance was studied with other economic mechanisms such as corporate governance models (Karpoff, 2021), corporate governance quality (Matić & Papac, 2014), bank risk (Felício *et al.*, 2018), corporate social responsibility (Skare & Golja, 2012; Stuebs & Sun, 2015; Dwekat *et al.*, 2020), audit fees (Hay *et al.*, 2008) or financial performance (Amole *et al.*, 2021; Al-Jaifi, 2020; Andrieș *et al.*, 2018; Bunea *et al.*, 2018).

Over time, the relationship between corporate governance policies and financial performance has been debated both nationally and internationally. The study carried out by Lungu *et al.* (2020) identified the most frequent variables that define this relationship, used by Romanian researchers. Thus, the authors identified that among the most frequently used corporate governance variables are the independence of the board of directors, the index of corporate governance, and the size of the board of directors. The financial performance of the companies was measured in the analysed studies using variables such as: return on assets (ROA), return on equity (ROE) or the Tobin Q ratio. Furthermore, the research that has focused on identifying relationships between corporate governance mechanisms and the companies' financial performance has identified mixed relationships between variables.

The relationship between a financial institution performance and corporate governance was debated during the time by the authors such as Benvenuto *et al.* (2021); Haris *et al.* (2019); James & Joseph (2015); Salim *et al.* (2016) or Nedelcu *et al.* (2015), being an important theme of debating. The previous studies have different results, for instance, authors such as Onofrei *et al.* (2018) found a negative association between the corporate governance mechanism and the financial performance, while Zagorchev & Gao (2015) and Salim *et al.* (2016) identified a positive association between these mechanisms, measured by different metrics or authors such as Bawazir *et al.* (2021); Benvenuto *et al.* (2021) and Aslam & Haron (2020), found mixed results.

In the Romanian context, Benvenuto *et al.* (2021) assessed the impact of the corporate governance index on the financial performance in the Romanian and Italian banking systems for the period 2007-2018. For Romania, the authors identified that the effective implementation of corporate governance within the banking system had a positive long-term impact on profitability. Manta *et al.* (2018) analysed the impact of corporate governance mechanisms on the financial performance of Romanian banks in the period 2013-2015. The results show that corporate governance mechanisms exert a positive impact on the return on assets and the return on equity. Nedelcu *et al.* (2015) studied the impact of external audit on the financial performance of Romanian banks, measured by the return on assets and the return on equity, for the year 2013. The results obtained showed that there is an insignificant positive association between the quality of external audit and the financial performance of credit institutions in the Romanian banking system. Furthermore, Dinu & Nedelcu (2015) analysed the impact of the audit committee on the financial performance of Romanian banks. The results of the study showed that there is a positive relationship between the audit committee and the return on assets. Ștefănescu *et al.* (2010) also analysed the Romanian banking system. Analysing the impact that foreign ownership and board size have on the bank's financial performance, the authors identified a statistically significant and positive influence.

The purpose of this study is to examine the possible association between financial institutions performance and different corporate governance metrics for a sample of 30 financial institutions from an emerging country such as Romania in uncertain times. For measuring financial performance, the return on assets and return on equity ratios are chosen, while the metrics for corporate governance are the board size, the executive board size, the board gender diversity, the CEO duality and the audit committee size. By using descriptive statistics, the Pearson and Spearman correlation matrix, and the linear regression model, the results obtained are mixed. The size of the board, the size of the executive board and the duality of the CEO have a positive impact on the ROA and ROE, while the gender diversity of the board and the audit committee have a negative impact on both the ROA and the ROE during uncertain times.

The reminder of this paper advances as follows: the second section presents the most recent literature regarding the relationship between corporate governance and financial performance, while the third section presents the research design and method, variables and data sample. The fourth section is dedicated to the results and discussions, while the conclusions of the study are provided in the fifth section.

2. Literature review and hypotheses development

During the last two decades, the relationship between corporate governance mechanisms and the firm's performance has been widely debated, both at the international and national levels. This relationship was debated both for the financial and nonfinancial companies during this time. An interesting study conducted by Mititean & Constantinescu (2020) shows that in emerging countries this topic was widely debated. The authors conducted a structured literature review, analysing 213 articles, from 10 European emerging countries, in journals of conference proceedings referring to corporate governance and performance. The results show that the metrics mostly used for corporate governance were CEO characteristics, board size, board characteristics, board independence or ownership characteristics, while return on assets, return on equity, Tobin's Q ratio, firm size or sales growth are the metrics mostly used to measure the firm's performance. The link between corporate governance and performance was studied for different countries. For example, Aslam & Haron (2020) investigated the effects of corporate governance on Islamic banks by using the two-step system generalization method of moment estimation technique to analyse this relationship. The data was collected for 129 Islamic banks from 29 Islamic countries during the period 2008-2017. Corporate governance was measured by board size, nonexecutive directors, CEO duality, Shariah Supervisory Board, and the total number of audit committees, while bank performance was measured by return of assets and return of equity. The results show that two corporate governance mechanisms, namely the Shariah Supervisory Board and the audit committee, have a positive impact on both bank performance mechanisms, while the size of the board has a negative and significant effect on the bank performance. In their study, Amole *et al.* (2021) analysed the impact of corporate governance on the financial performance of money deposit banks in Nigeria. The author used a descriptive method to analyse this relationship between board size, board composition, audit committee and return of assets. The results show a significant negative relationship between the audit committee, the size and composition of the board and the financial performance. The authors recommend that the corporate governance of Nigerian money deposit banks should be improved in terms of the board size and composition.

Using a corporate index as a metric of corporate governance and cost and technical efficiency, Andrieș *et al.* (2018) investigated the relationship between corporate governance and a bank efficiency for a sample of 139 banks from 17 European countries during the period 2005-2012. The results of the study show that a bank costs are higher when it wants to implement rigorous corporate governance structures and a lower level of efficiency of the effect. It is important to mention that during uncertain times the authors show that the cost and efficiency of banks are increasing with tight governance mechanisms. Furthermore, Benvenuto *et al.* (2021) studied the impact of corporate governance on the performance of Romanian and Italian banks. Bank performance was measured by the return on assets, while corporate governance was constructed by a corporate governance index. The authors collected data during the period 2007-2018 for six Romanian and seven Italian banks. The results show that corporate governance has a negative effect on the performance of the Romanian banks, while it has a positive impact for the performance of the Italian banks.

Bunea (2020) analysed the relationship between the CEO characteristics and the performance of the Romanian banks. Using as metrics for CEO characteristics age, education, gender diversity and nationality of CEO, and return of assets and return of equity as metrics for banks performance, the author found that CEO education has a positive impact on the performance of the Romanian banks, while CEO age has a weak impact, and CEO gender and CEO nationality were found to have no impact. In addition, Nedelcu *et al.* (2015) studied the possible association between the external audit and the performance of the Romanian banks. The quality of the external auditor (if the external auditor is from BIG4 or not) was used as a metric for corporate governance, while the return of assets and the return of equity were used as metrics for the banks' performance and 21 Romanian banks were included in the sample for the year 2013. The results suggest that the quality of the external auditor has an insignificant impact on the performance of the Romanian banks. By using the metrics such as risk committee, Chief Risk Officer at bank level, board size, board independence, financial experience of members, return of assets, return of equity, bank size, share banks deposit or share of credit granted for corporate governance, risk management and financial performance, Bunea *et al.* (2018) studied the relationship between risk management, corporate governance, and financial performance of the Romanian banking system. The authors study reveals that the financial experience of the members has a positive impact on the banks' performance. Although, the presence of the Chief Risk Officer in board size and risk committee at the bank level also shows a positive impact of the firm size. Furthermore, Onofrei *et al.* (2018) analysed the influence of corporate governance on the performance of Romanian and Bulgarian banks by imposing an OLS regression on panel data. The authors used data for a long period, 2005-2015, for all Romanian and Bulgarian commercial banks reported by Bureau van Dijk database, collecting data from the annual reports of 27 banks. Using return of assets and return of equity as metrics for bank performance and CEO duality, and CEO board member as metric for corporate governance, the results show that if the CEO duality exists, that has a negative and statistically significant impact on banks performance, while if this role does not exist, then there is a positive impact on banks performance.

Al-Jaifi (2020) studied the relationship between board gender diversity and the environmental, social and corporate governance performance of banks in ASEAN countries. Using the quantitative method of research, the generalized method of moments (GMM) technique on 26 banks in Malaysia, Singapore, Thailand, Indonesia, and the Philippines during the period 2011-2016, the author found some interesting results. Using board gender, board size, board meetings, board independence, and audit committee independence as metrics for corporate governance and banks size, operating profit margin and the level of free-floating shares as metrics for banks performance, the results show that board gender has a positive impact on corporate governance performance, while environmental and social performance were found without any impact. For Pakistan, Haris *et al.* (2019) expelled the link between corporate governance and the political connections of directors in banks performance. Data were collected for the period 2007-2016 for 26 domestic banks. The authors used as metrics for politically connected directors of corporate governance board size, board composition, board independence, board ownership, board meetings, director compensation, audit independence and audit meetings, and return of assets, return of equity, net interest margin and profit margin as banks performance metrics. The results suggest that board composition, board independence, director compensation have a positive impact on the banks performance, while board meetings and the presence of foreign directors and audit committee independence have a negative impact. In Malaysia, James & Joseph (2015) studied the influence of the corporate governance mechanism on the performance of the Malaysian banks. By using ownership, board size, board independence and regulatory monitoring as metrics for corporate governance, and return of assets as banks performance metrics, and using a sample of 18 Malaysian banks during the period 2009-2013 and collecting data from the Thomson Reuters Worldscope database, the authors found some interesting results. The regulatory monitoring mechanisms have a positive impact on the performance of the Malaysian banks, while foreign ownership, board size and board independence have no impact on that performance.

Salim *et al.* (2016) analysed the impact of corporate governance on Australian banks performance collecting data during the period 1999-2013 using two-stage double-bootstrap data envelope analysis. Board size, board independence, board meetings, total number of committee meetings were used as metrics for corporate governance, while the largest share of individual shareholders, return of assets or liquidity was used as a banks performance metric. The authors found that the size of the board and the meetings of the board committees have a positive and significant effect on the performance of the Australian banks. Collecting data manually from annual reports and using EViews 9 software, Bawazir *et al.* (2021) found some interesting results by analysing the relationship between corporate governance and firm performance for a sample of 53 non-financial firms listed on the Muscat Securities Market during the period 2007-2017. Board size, board independence, board meetings, female directorship and audit committee size were used as metrics for corporate governance, while return of assets, return of equity and the price-earnings ratio were used as metrics for firm performance. The audit committee has a significant positive impact on the firm performance measured by ROA and the price-earnings ratio, while a negative impact was found when firm performance is measured by ROE. Board meetings have a significant and negative impact on ROE, while board gender has a positive and significant association with ROE. Zagorchev & Gao (2015) studied the impact of corporate governance mechanisms on financial institutions performance. Data were collected for the 820 unique US financial institutions that are publicly traded during the 2002-2009 period. By building a corporate governance index and using different performance metrics such as pretax margin, sales growth, return of assets and Tobin's Q, the results show that better corporate governance is associated with the good performance of companies related to Tobin's Q. A higher level of corporate governance also has a positive impact on the firm's performance over a certain period of time.

The COVID-19 pandemic has affected all the characteristics of the companies in the last years and the effects can be seen in the market. The way this pandemic affected companies was analysed by several studies. For example, Folger-Laronde *et al.* (2022) studied how environmental, sustainability and governance ratings affected the performance of exchange traded funds during the COVID-19 pandemic. Using ANOVA and multivariate regression models, the authors found that a higher level of sustainability performance does not protect the investment from financial losses. Hoang *et al.* (2022) examined whether ESG transparency helps to reduce the impact of the COVID-19 pandemic in the UK. The results of the study show that the greater the transparency of ESG factors, the less the company is affected by the pandemic, but the authors did not provide any evidence that ESG transparency would help better performance. Furthermore, Khatib & Nour (2021) studied the impact of corporate governance on the firms' performance during the COVID-19 pandemic. The data sample consists of 188 non-financial firms from the Malaysian market during the period 2019-2020. Using board size, independence, gender diversity, meetings, audit committee size and audit committee as corporate governance metrics, and return on assets, return on equity and earnings before interest as performance measurement, and applying Ordinary Least Squares to test the link between these two components, the results reveal that COVID-19 has affected both corporate governance and performance mechanism, the board size having a positive effect on company performance. In the Romanian context, Mititean (2022) analysed the impact of corporate governance mechanisms on the financial performance of non-financial companies listed on the Bucharest Stock Exchange during an uncertain time. The regression results indicate that, in uncertain times, board gender has a positive and significant impact on the firms' performance as measured by ROA, while CEO duality has a negative, but insignificant impact. Furthermore, during uncertain times, the size of the board had a positive, but insignificant impact on the firms' performance, as measured by ROE.

Based on the results of previous studies, we developed five hypotheses for this study:

- ✓ *H1: There is a positive relationship between the board size and the financial institutions performance in European emerging countries in uncertain times.*
- ✓ *H2: There is a positive relationship between the executive board size and the financial institutions performance in European emerging countries in uncertain times.*
- ✓ *H3: There is a positive relationship between the gender diversity in boards and the financial institutions performance in European emerging countries in uncertain times.*
- ✓ *H4: There is a positive relationship between the CEO duality and the financial institutions performance in European emerging countries in uncertain times.*
- ✓ *H5: There is a positive relationship between the audit committee size and the performance of financial institutions in European emerging countries in uncertain times.*

3. Research design and methodology

The purpose of this study is to examine the impact of corporate governance mechanisms on the financial institutions' performance in an emerging country in uncertain times. Data for this study were collected manually from annual reports of financial institutions published on their websites, during the period 2019-2020. The financial institutions of the sample were chosen from the list of commercial banks published by the National Bank of Romania on its website and the other financial institutions listed on the Bucharest Stock Exchange. In addition, financial institutions that did not provide data for all periods were excluded. The final sample consists of 30 financial institutions.

The details related to the variables used for this research are summarized in Table 1. To have a holistic approach to the dependent variables that measure the performance of the companies, two financial indicators were considered: the return of assets and the return of equity. Five independent variables were considered: board size, executive board size, board gender diversity, CEO duality and audit committee size. In addition to the dependent and independent variables, two control variables were included: leverage, calculated as a ratio of total debt to total assets, and firm size, calculated as a natural logarithm of total assets.

Table 1. Variables used in the linear regression model

Variable	Type	Description	Referenced studies/research
Board size	Independent	Total number of board members	Zagorchev & Gao (2015); Salim *et al.* (2016); Al-Jaifi (2020); Aslam & Haron (2020); Al-Matari (2019); Iqbal *et al.* (2018); Ofoeda (2017); Kafidipe *et al.* (2021)
Executive board size	Independent	Total number of directors	Ozdemir & Kilincarslan (2021); Hasan *et al.* (2019); Gupta & Mirchandani (2020); Manta *et al.* (2018)
Board gender diversity	Independent	The ratio between the total number of female directors on boards and the total number of directors on boards	Bawazir *et al.* (2021); Al-Jaifi (2020); Fernández-Temprano & Tejerina-Gaite (2020); Iqbal *et al.* (2018); Ofoeda (2017); Chijoke-Mgbame *et al.* (2020)
CEO duality	Independent	The dummy variable equals 1 when the CEO doubles as the board chair and 0 otherwise.	Aslam & Haron (2020); Ozdemir & Kilincarslan (2021); Iqbal *et al.* (2018); Ofoeda (2017); Kyere & Ausloos (2021); Hasan *et al.* (2019); Otero-González *et al.* (2021)
Audit committee size	Independent	Total number of members of the audit committee	Bawazir *et al.* (2021); Boachie (2021); Al-Jaifi (2020); Ajili & Bouri (2018); Chijoke-Mgbame *et al.* (2020)
Return of assets	Dependent	The ratio of earnings before interest and taxes to total assets	Zagorchev & Gao (2015); Al-Jaifi (2020); Fernández-Temprano & Tejerina-Gaite (2020); Iqbal *et al.* (2018); Ofoeda (2017); Kyere & Ausloos (2021); Kafidipe *et al.* (2021); Otero-González *et al.* (2021); Chijoke-Mgbame *et al.* (2020)
Return of equity	Dependent	Profit after tax as a percentage of total equity	Al-Jaifi (2020); Iqbal *et al.* (2018); Kafidipe *et al.* (2021); Otero-González *et al.* (2021)
Leverage	Control	Ratio of total debt to total assets	Al-Matari (2019); Ajili & Bouri (2018); Kyere & Ausloos (2021); Kafidipe *et al.* (2021); Chijoke-Mgbame *et al.* (2020)
Firm size	Control	Natural logarithm of total assets	Al-Matari (2019); Iqbal *et al.* (2018); Ofoeda (2017); Ajili & Bouri (2018); Kyere & Ausloos (2021); Kafidipe *et al.* (2021); Hasan *et al.* (2019); Otero-González *et al.* (2021); Gupta & Mirchandani (2020); Chijoke-Mgbame *et al.* (2020)

Source: Developed by the author.

To estimate the impact of corporate governance on financial institutions performance, a linear regression analysis was performed. Linear regression analysis was used in previous studies by Otero-González *et al.* (2021); Kafidipe *et al.* (2021); Al-Matari (2019); Hasan *et al.* (2019); Chijoke-Mgbame *et al.* (2020); Bunea (2020); Bunea *et al.* (2018); Onofrei *et al.* (2018); Haris *et al.* (2019). To run the model, the IBM SPSS statistical program was used for the selected sample. The regression model used to analyse the influence of corporate governance mechanisms on the performance of financial institutions is presented as follows:

$$FIP_{it} = \beta_1 BZ_{it} + \beta_2 EXsize_{it} + \beta_3 BG_{it} + \beta_4 AUD_{it} + \beta_5 CEO_{it} + \beta_6 LV_{it} + \beta_7 FZ_{it} + \varepsilon_{it}$$

where:
FIP – financial institutions performance, which will take subsequently the value of the return on assets and return on equity, respectively;
BZ – board size;
EXsize – executive board size;
BG – board gender diversity;
AUD – audit committee;
CEO – CEO duality;
LV – leverage;
FZ – firm size;

β_{1-7} – regression coefficients;
ε_{it} – error.

4. Results and discussions

Table 2 presents a descriptive analysis of corporate governance mechanisms, financial institution performance, and other control variables at the financial institutions level. The mean value of the financial institutions performance metrics for ROA is 1.75%, while for ROE it is 2.12%. It is important to see that the minimum of ROE is -60.92% and the maximum is 70.47%, which shows a big difference between them. Moreover, for ROA metric, the minimum is -3.9% and the maximum is 41.06%.

Table 2. Descriptive statistics of variables

Variable	N	Minimum	Maximum	Mean	Standard deviation	Skewness		Kurtosis	
						Statistic	Standard error	Statistic	Standard error
BZ	30	3	9	6.13	1.907	0.244	0.427	-1.110	0.833
EXsize	29	2	9	4.48	2.230	0.564	0.434	-1.062	0.845
BG	30	0.000	0.429	0.187	0.142	0.107	0.427	-0.933	0.833
AUD	23	0	5	2.70	1.063	-1.062	0.481	2.983	0.935
CEO	30	0	1	0.27	0.450	1.112	0.427	-0.824	0.833
ROA	30	-3.90%	41.06%	1.75%	7.58%	5.126	0.427	27.412	0.833
ROE	30	-60.92%	70.47%	2.12%	18.50%	0.344	0.427	10.391	0.833
LV	30	0.53%	93.59%	67.99%	34.39%	-1.202	0.427	-0.367	0.833
FZ	30	16.511	25.361	21.966	2.130	-0.625	0.427	0.486	0.833

The mean of board size is 6.13, with a mean of 18.7% of them being female, having a range between 0.00% and 42.9%. These results show that for financial institutions from emerging countries, the presence of female members on the board is greater if we compare the results with the information presented in the Database for Gender Statistics of the European Institute for Gender Equality and The Global Gender Gap Report 2018, where the share of board members in the largest quoted companies, the supervisory board or the board of directors is 10.8%, and the share of board members of the central bank is 11.1%. Furthermore, the mean of the audit committee is 2.7, with a minimum of 0 members in the audit committee and a maximum of 5, while the percentage of the CEO duality percentage has a range of 0.27, which means that only for 27% of the sample the CEO has both functions, the chief of the board and the chairman.

Table 3. Pearson/Spearman correlation matrix

Variable	BZ	EXsize	BG	CEO	AUD	ROA	ROE	LV	FZ
BZ	1	0.500**	0.158	-0.359**	0.035	-0.179	0.132	0.346**	0.482**
EXsize	0.504**	1	-0.025	-0.375**	0.544**	-0.103	0.099	0.246	0.682**
BG	0.232	0.009	1	-0.015	0.044	0.083	0.115	0.155	-0.040
CEO	-0.366**	-0.383**	-0.071	1	0.029	0.329*	0.280*	-0.375**	-0.168
AUD	0.208	0.533**	0.032	-0.058	1	0.015	0.082	-0.059	0.460**
ROA	0.182	0.076	0.045	0.223	0.067	1	0.816**	-0.341**	-0.391**
ROE	0.346**	0.327*	0.162	0.067	0.240	0.842**	1	-0.183	-0.112
LV	0.203	0.202**	0.246	-0.382**	-0.016	-0.441**	-0.137	1	0.267*
FZ	0.594**	0.759**	0.030	-0.179	0.534**	0.018	0.256*	0.294*	1
VIF	1.55	2.27	1.01	1.20	1.73	-	-	-	-
Tolerance	0.64	0.44	0.99	0.83	0.58	-	-	-	-

Notes: In the above table, Pearson (Spearman) correlations are presented below (above) the diagonal of the matrix.
* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

Table 3 presents the Pearson and Spearman correlation for all variables in the sample. The Pearson correlation is presented above the diagonal. It can be observed that CEO duality is positively correlated with ROA and ROE at the level of 0.05, while it is negatively correlated with firm leverage at the level 0.01. In addition, board size is positively correlated with leverage and firm size at level 0.01, while audit committee has a positive impact at level 0.01 with the firm size and a positive impact on ROA. According to Spearman's correlation, presented below the diagonal, board size is positively correlated with ROE and firm size at the level 0.01, while the executive board members are positively correlated at the level of 0.05 with ROE and at the level of 0.01 positively correlated with leverage. CEO duality has a negative correlation with leverage at level 0.01, while the audit committee is positively correlated with firm size at level 0.01. Therefore, to check for all potential multicollinearity issues, the variance inflation factor (VIF) was used. The results of the multicollinearity test (VIFs) for the independent variables are 10, being between 1.01 and 2.27 a minimum and a maximum value, while the correlation is 0.1, being between 0.44 and 0.99, which means that there are no issues for multicollinearity according to Wooldridge (2005).

The impact of the financial institutions' performance performed by ROA and ROE on the corporate governance mechanism represented by board size (BZ), executive board members (EXsize), board gender (BG), CEO duality (CEO) and audit committee members (AUD) is presented in Table 4. First, by analysing for the 2019-2020 period, board size is positively correlated with ROA and positively significant with ROE. The annual analysis reveals an invalid model of the impact of corporate governance mechanisms on financial performance at the level of 0.002[b] for the ANOVA Sig. For both 2019 and 2020 years, **the board size has a positive impact on performance. Thus, H1 is supported**. The results are similar to those of Alam *et al.* (2020) and Al-Matari (2019), who founded that board size has a positive impact on performance, while the results of Nomran & Haron (2020) and Mayur & Saravanan (2017) show a negative impact on performance.

Secondly, **the executive board size has a positive and significant impact on performance even in uncertain times, on ROA and ROE, while in a certain time they have only a positive impact. Thus, H2 is supported**. The positive association between the composition of the executive board and financial institutions agrees with previous studies conducted by Ozdemir & Kilincarslan (2021) and Manta *et al.* (2018), but contrary to the results of Hasan *et al.* (2019).

Table 4. The impact of corporate governance mechanisms on ROA and ROE

	2019-2020				2020				2019			
	ROA		ROE		ROA		ROE		ROA		ROE	
	B	Sig.	B	Sig.	B	Sig.	B	Sig.	B	Sig.	B	Sig.
(Constant)	0.63	0.00	0.70	0.04	73.33	0.00	92.30	0.12	66.46	0.01	64.13	0.17
BZ	0.00	0.62	0.04	0.05	0.13	0.93	3.27	0.45	0.26	0.84	4.05	0.14
EXsize	0.03	0.01	0.05	0.02	4.39	0.01	9.01	0.07	3.02	0.07	3.75	0.25
BG	0.00	0.81	0.01	0.79	-6.30	0.67	-10.95	0.80	-0.99	0.92	1.00	0.96
CEO	0.10	0.01	0.24	0.01	15.25	0.01	32.88	0.02	9.92	0.11	27.23	0.04
AUD	0.00	0.90	0.01	0.70	-3.50	0.25	-6.39	0.48	1.98	0.41	7.08	0.16
LV	-0.04	0.34	-0.05	0.57	0.08	0.13	0.06	0.67	-0.10	0.09	-0.05	0.69
FZ	-0.03	0.00	-0.05	0.01	-4.07	0.00	-6.48	0.06	-3.50	0.01	-5.35	0.05
F statistic	4.11		3.02		3.65		1.78		2.88		1.84	
Durbin-Waston	1.91		2.27		2.29		2.41		2.05		2.19	
Adjusted R-square	0.34		0.25		0.47		0.21		0.39		0.22	
ANOVA Sig.	0.002[b]		0.013[b]		0.019[b]		0.170[b]		0.043[b]		0.157[b]	
N	44				22				22			

Thirdly, **the gender diversity of the board has a positive overall impact, but a negative and insignificant impact in uncertain times correlated with both ROA and ROE, while in certain times it is positively correlated with ROE, but negatively with ROA**. **Therefore, H3 is not supported.** The results are in accordance with the study conducted by Hasan *et al.* (2019) and contrary to the results of Al-Jaifi (2020) and Chijoke-Mgbame *et al.* (2020).

Fourthly, **CEO duality has a positive and significant impact during uncertain times for both ROA and ROE financial performance at the level of 0.05, while in certain time the impact is positively correlated with ROA and positively significant for ROE. During the 2019-2020 period, CEO duality has a positive and significant association with ROA and ROE. Thus, H4 is supported**, and the results support the findings of Kyereboah-Coleman & Biekpe (2006).

Finally, the role of the audit committee is negatively associated with ROA and ROE in uncertain times, and positively, but insignificantly, in a certain time. **The impact of the audit committee is not significant for the 2019-2020 analysis and for the years 2019 and 2020 taken separately. Therefore, H5 is not supported**, contrary to the results of Bawazir *et al.* (2021) and Dinu & Nedelcu (2015), which found that the audit committee has a positive impact on financial performance. Moreover, we conduct the Durbin-Waston test, and the results suggest that the errors are not correlated between the dependent and independent variables, the score of Durbin-Waston being around 2 (Manta *et al.*, 2018).

5. Conclusions

This study examines the impact of corporate governance mechanisms on the financial institutions performance in an emerging European country during uncertain times using a quantitative research method in the presence of linear regression on a sample of 30 financial institutions for the period 2019-2020. In the study, the corporate governance mechanisms used were: board size, executive board size, board gender diversity, CEO duality and audit committee size, while for the financial institutions' performance, we use ROA and ROE, meanwhile the financial institutions size and leverage were used as control variables. The data were manually collected from the annual reports posted on the institutions websites or on the Bucharest Stock Exchange website.

The regression results suggest that board size, executive board members and CEO duality support hypotheses H1, H2 and H4 and have a positive impact on the firm's performance, both measured by ROA and ROE. Therefore, hypotheses H3 and H5, regarding the possible association between gender diversity on the board and the size of the audit committee and the performance of the financial institutions, are rejected, having a negative impact during uncertain times on ROA and ROE.

The results contribute to the existing literature and may help third parties to better understand the correlations between corporate governance mechanisms and performance of the financial institutions. This study also has some limitations. First, the period under observation is only two years. Second, it focuses only on 30 financial institutions in Romania and does not include all other financial institutions. Future studies could explore the corporate governance mechanism and the measurement of the financial institutions' performance to find new patterns and new insights into the financial field. In addition, the database could be extended to all financial institutions in Romania and other European emerging countries.

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