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Sociology

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Introduction

Research on boards of directors' influence on a company's performance has increased in the past years as more scholars have shown a great interest in this subject. Researchers have looked at this relationship from various angles and tried to find connections using different corporate governance theories, such as agency, stewardship, social network, institutional and resource dependence theory (Davis *et al.*, 1997; Jensen and Meckling, 1976; Pfeffer and Salancik, 1978). However, there are few studies that assess the impact of boards' attributes on financial performance from a strategic perspective. Moreover, studies that address these issues all together within the context of Romania are even scarcer. This study attempts to fill this gap by examining how five attributes of Romanian listed companies on the Bucharest Stock Exchange (BSE) – size, age, female representation, non-executive directors, CEO-duality – relate to diversification strategy and to corporate performance.

Studies on corporate governance issues have focused merely on developed economies and these findings cannot be extrapolated to emerging economies (Jackling and Johl, 2009).

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BOARDS' ATTRIBUTES AND COMPANY PERFORMANCE: THE ROMANIAN EXPERIENCE

ABSTRACT. For a long period of time, researchers from the corporate governance field have been interested in finding out what drives companies' performance. The present study identifies five attributes of boards – size, age, female representation, proportion of non-executive directors, and chairman-CEO duality – in an attempt to link these to diversification strategy and financial performance. These relations are investigated using archival sources of data for a sample of 56 publicly traded companies from an emerging economy. The results are consistent with other studies performed abroad and at the same time offer new theoretical and managerial perspectives on the issues analyzed. The findings offer some valuable insights into the decision of corporate diversification at both theoretical and managerial level. The results provide support for both managerial hegemony and agency theory. Board members have little involvement in the strategy-making process as this is most often an attribute of managers, where as the existence of more members without executive responsibilities is a determinant of superior company performance.

Furthermore, investigations that assess Romanian companies are necessary as the country has been experiencing more foreign direct investments in the last few years, which calls for more transparent approaches to corporate governance.

Conducting research on boards related to their strategic involvement has never been an easy task. The main reason for this is the reluctance of directors to share knowledge that is seen as extremely important for the success of the companies (Kesner and Johnson, 1990). Management researchers have difficulty in establishing the strategic role that boards might play within companies. Directors' influence on the strategy-making process is highly controversial within the corporate governance literature. Pugliese *et al.* (2009) showed that the strategic involvement of boards can be done in various ways: (1) through engagement in developing elements of the general strategy, like mission statements, long-term targets; (2) through contribution to different strategic outcomes, like innovation, diversification and mergers and acquisitions; (3) through involvement in various stages of strategic decisions by interacting with top managers.

The purpose of this study is to advance international corporate governance research by focusing on the corporate governance practices of an emerging economy. Using data collected from 56 major publicly traded companies in Romania we examine the board attributes, diversification strategy and company performance. We begin with an overview of research related to this field and then we develop hypotheses asserting that board attributes will have no influence on diversification strategy. Additionally, we hypothesize that board attributes will impact company performance, whereas diversification strategy will serve as a mediator between board attributes and performance. Finally, we discuss the implications of the findings for theory and practice.

1. Literature review and hypotheses development

1.1. Board attributes and company performance

Taking into account the main role of directors, which is to supervise and to prevent opportunistic behaviour of managers (Fama and Jensen, 1983), the composition of a board of directors becomes vital within corporate governance frameworks. The struggle to find what lies behind a boards' "black-box" (Leblanc, 2004) has increased significantly in the last years in an attempt by researchers all over the world to identify key features of the most efficient boards. In this sense, a plethora of studies has tried to explain the relation between board attributes and company performance. Romanian research on board of directors is less developed than that in western countries. Furthermore, the focal point of Romanian scholars has been rather descriptive with an emphasis on describing the composition of boards and the relation between various boards' attributes. Very few Romanian researchers have studied the link between boards and performance (Gavrea *et al.*, 2012; Ștefănescu, 2011).

There is a general belief that the pattern of links between boards of directors and company performance is developed within several governance theories (Nicholson and Kiel, 2007). Next we will review the literature and develop hypotheses within the context of these theories.

Boards of directors' size and performance. The resource dependence theory seems to be appropriate to explain the connections between the size of the board and the profitability of the companies. Proponents of this theory argue that an increased number of members within boards will lead to an accumulation of resources that in the end will pay off. According to this theory, board members are seen as providers of important resources not only through their knowledge, but also through the associations that they have with the external environment (Palmer and Barber, 2001).

The empirical results are however contrasting. On the one hand, there is evidence that suggests that bigger boards are more likely to have an impact on performance. Dalton *et al.* (1998), for example, in a meta-analysis of board size and firm performance found a positive association between these variables. Similar results had also been reported by Pearce and Zahra (1991), who argue that companies with larger boards will ultimately benefit from the experience of board members who will improve the quality of strategic decisions and eventually the performance of the company. On the other hand, there are scholars who acknowledge that smaller boards are more effective than larger boards, suggesting an inverse link between company performance and the size of the board (Guest, 2009). Jensen (1993) suggests that any board that has more than eight members will inhibit board performance. Considering the previous findings and the average size of Romanian boards, we expect that:

Hypothesis 1: The size of the board is positively associated with company performance in Romanian companies.

Board age and performance. Greater seniority is usually associated with an increased level of accumulated experiences that can be used to improve firm operations. On the other hand, younger people tend to take more risks and embrace more innovative ideas (Guthrie and Olian, 1991) and at the same time, they are expected to have superior technical knowledge. In a comparison survey of Australian and Japanese boards, Bonn *et al.* (2004) predicted that there is an indirect relation between the average age of board members and financial performance. Their findings suggested only limited evidence for this relationship (for the Japanese companies and only for the book to market variable); hence we adopt the following hypothesis:

Hypothesis 2: The average age of board members is uncorrelated with company performance for Romanian companies.

Female representation and performance. The board diversity emphasized through gender difference was the subject of researchers who aimed to point out that men and women have different attitudes on various policy issues that could make the difference between best performing companies and the others. Traditionally, the boards had been dominated by male members. Even though recent studies show an increase in female board members, the proportion of women remains low (Burgess and Tharenou, 2002). The type of industry is crucial for difference between boards with greater female representation. For example, in food-related and cosmetics industries where women are the principal buyers, there are a greater proportion of female members (Fryxell and Lerner, 1989). There are several reasons to believe that boards that include a greater proportion of women are better. For example, these companies could deal more effectively with diversity related to products and markets and also improve their overall image as a result of an improvement of the ethical decision process (Bernardi *et al.*, 2006).

So far, the empirical studies that have addressed this relation have offered mixed results. A recent study on a sample of listed Danish firms that used a cross sectional analysis was not able to find any link between company performance and the proportion of women on the supervisory board, nor between company performance and boards that have at least one female member (Rose, 2007). A study made by Carter *et al.* (2003) identifies a positive relation between board female representation and financial performance measured by Tobin's Q. Another study conducted on US data points out that a higher degree of board diversity is associated with higher performance measured by return on invested capital and return on assets (Erhardt and Werbel, 2003). After an investigation on FTSE 100 companies from UK, Singh *et al.* (2001), concluded that female directors are more likely to appear in large firms, with many employees and with highest profits. The following hypothesis is proposed:

Hypothesis 3: Board female representation is positively associated with performance in Romanian companies.

Non-executive directors and performance. Agency theory and stewardship theory are used to explain the need for independent directors, namely directors that are not holding managerial positions. According to the agency theory, a greater proportion of outside directors are an enabler for minimizing agency costs as a greater control can be exerted over managers (Fama, 1980). In this way, the boards can better serve the interests of shareholders and contribute to greater profitability. Conversely, stewardship theory assumes that directors that are members of the executive team will work harder to satisfy shareholders, and they will be able to provide better results for them (Donaldson and Davis, 1991).

Several studies conducted on the relation between outside directors and performance highlight a positive association between these variables (Baysinger and Butler, 1985; Coles *et al.*, 2001; Pearce and Zahra, 1991), whereas other studies point to a negative association or don't show any correlation (Dalton *et al.*, 1998). Given these findings, we decided to base our next hypothesis on the agency theory:

Hypothesis 4: The proportion of non-executive directors is positively associated with company performance in Romanian companies.

CEO duality and performance. From the agency theory perspective the separation between the chairman and the CEO is essential for company profitability. If this is the case, the chairman of the board can effectively monitor the self-interested manager and secure better performance (Jensen and Meckling, 1976). The stewardship theorists have an opposing view as they believe that unifying the supervising and management roles for a single person will lead to higher firm performance (Donaldson and Davis, 1991). Not only are there differences with respect to theoretical perspectives, but there are also mixed empirical findings about the impact of duality on performance. Adams *et al.* (2005) examined Top 500 Fortune US companies from 1992 to 1999 and found that the CEO being sole manager is negatively correlated with return of assets, but positively correlated with Tobin's Q measure of financial performance. Overall, we adopt the null hypothesis:

Hypothesis 5: The separation between chairman of board and CEO is uncorrelated with company performance in Romanian companies.

1.2. Board attributes, diversification strategy and company performance

Companies can develop strategies on three levels: corporate, business and functional (Hitt *et al.*, 2009). Through corporate strategies, companies identify the business areas in which they will operate in the long term. Diversification strategy is a corporate strategy that results from mergers and acquisitions or other internal investments that are meant to lead to company growth (Graham *et al.*, 2002). The diversification strategy is usually used by companies in order to spread the risks among several businesses and also to reduce the dependence on a few products and markets (Amihud and Lev, 1981). Moreover, diversification strategy is pursued by companies that hope to limit the uncertainty in markets and technological developments and to obtain a better allocation of their resources.

The strategic management literature distinguishes between product and geographical diversification. The former describes the intention of companies to expand into product markets that are new to a company, whereas the latter describes the behaviour of companies associated with their intentions to expand across the borders of global regions and countries into new geographic locations or markets (Hitt *et al.*, 1997). The product diversification strategy was reported to be popular among companies all over the world.

Researchers from the corporate governance field have tried to document the relation between board attributes and diversification strategy, and researchers from the strategic management field have tried to align diversification strategy and firm performance. It is believed that the experience of board members is beneficial for a better strategy-making process (Kiel and Nicholson, 2003). According to this view, board attributes will have a positive impact

on diversification. There is enough evidence to suggest that board members can make a significant contribution to strategy development as they will set goals and evaluate the success of the business (Hill and Snell, 1998; Wagner *et al.*, 1998). However, this view is not embraced by everybody. Other scholars argue that the role of a board is not to directly take part in the corporate strategic process, as this is management responsibility (Hoskisson *et al.*, 1994). Our research is based on the views that a board of directors may have an indirect influence on the financial performance of the companies, through its participation in shaping the diversification strategy. Given all these, we formulate the following two hypotheses:

Hypothesis 6 (a-e): There is no association between board attributes (a. size, b. age, c. female representation, d. non-executive proportion, e. CEO duality) and diversification strategy in Romanian companies.

Hypothesis 7 (a-e): Diversification strategy mediates the relation between board attributes (a. size, b. age, c. female representation, d. non-executive proportion, e. CEO duality) and company performance in Romanian companies.

2. Research methodology

2.1. Sample

The goal of the study was to perform an *avant-garde* research on the boards' attributes with respect to their link toward diversification strategy and company performance in Romania; hence, the data were collected from companies listed on the Bucharest Stock Exchange. Samples drawn from listed companies are typical for corporate governance surveys especially because of the availability of data (Bonn *et al.*, 2004). Even so, Romanian companies were highly criticised for the scarcity of disclosures, managers being inclined to make mandatory rather than voluntary disclosures (Gîrbină *et al.*, 2012). Data on both the companies and the directors were gathered from the Annual Reports, Board of Directors Reports, and BSE website and companies websites. *Table 1* provides a summary of the main characteristics of the 56 publicly traded companies within the sample. Other previous studies that addressed boards attributes focused on small company samples (Canyon and Peck, 1998; Stapledon and Lawrence, 1996). Among the firms analysed, 26.78% were small and medium sized enterprises, that is companies that employ less than 250 people; 17.86% were companies that had between 251-500 employees and the rest had over 500 employees. One way of classifying firms according to type of ownership refers to state-owned and private-owned firms. Within the sample, the majority of firms were private-owned (83.93%).

Table 1. Characteristics of sample firms

Characteristics	Number	Percentage
<i>Size of firms</i>		
SMEs (1-250 employees)	15	26.78
Large firms (251-500 employees)	10	17.86
Extra large firms (> 500employees)	31	55.36
<i>Ownership</i>		
State-owned firms	9	16.07
Private-owned firms	47	83.93
<i>Years of trade on BSE</i>		
Veteran firms (> 15 years)	29	51.78
Mature firms (between 11-14 years)	14	25.00
New entrant firms (< 11 years)	13	23.22

Source: authors' own calculation based on data gathered.

2.2. Measures

Company variables. Within the company variables we included company size and company age. These are used in our models as control variables. Company size was operationalized through two variables, namely the number of employees and the revenue. Various studies highlight the direct effect of firm's age upon knowledge accumulation with respect to the business environment (Carroll and Harrison, 1998). This variable is measured in different ways, but the most used one is through the number of years the firm has been active on the market. Considering the characteristics of the sample, we chose to use as a metric for this variable the number of years firms had been listed on the BSE; thus three groups of firms evolved: (1) "veterans" that had been listed for more than 15 years; (2) "mature" that had been listed on the stock exchange for a period that ranged between 11 and 15 years and (3) "new entrants" that had been listed for less than 11 years. To adjust for skewness within the sample, a natural logarithm was computed and used for both company size variables in all analyses.

Board attributes variables. In line with other studies that focus on boards of directors, we employed five measures of board attributes. First, we calculated the size of the board as the total number of people sitting in the board of directors. Second, we measured the board age as an average of directors within a board. Third, we estimated the level of women representation by computing a variable that portrays the percentage of women out of the total number of board members. Forth, we distinguished between members of board that held executive positions and members of the board that didn't hold any executive responsibility. In this way, we calculated the percentage of non-executive board members out of the total number of board members. Eventually, we calculated the CEO duality as a dummy variable (if the chairman and the CEO is the same person we coded "1", otherwise we coded "0"). The board attributes were used as independent variables within our models.

Diversification strategy. For the present study, we chose to operationalize the diversification strategy through the product approach, using Rumelt's ratio (1974). This allowed us to calculate the level of diversification by dividing total revenues of the largest product market into the total revenues of the company. Rumelt's diversification ratio is widely used within studies that address this corporate strategy (Montgomery, 1982) and it is reported to overcome the drawbacks of the traditional approaches used to measure a company's product diversity that rely on SIC codes (Rumelt, 1982).

Company performance variables. Financial performance of companies can be measured either through accounting-based indicators, or through market-based indicators. Over time, both approaches have suffered from criticisms (Deckop, 1987; Hambrick and Finkelstein, 1995; Nayyar, 1992). For example, it was said that the accounting-based indicators are subject by manipulation by managers; they lack standardization with respect to the international accounting conventions and are difficult to interpret for samples comprised of companies from various industries. On the other hand, the market-based indicators are sometimes influenced by external forces that are out of managers' control. Scholars have relied on both indicators when they addressed the relation between governance structures and financial performance (Boyd, 1995; Buchholtz and Ribbins, 1994; Finkelstein and D'Aveni, 1994; Hoskisson *et al.*, 1994); however, there is a prevalence of accounting-based measures against the market-based measures (Dalton *et al.*, 1998). The present study employs one of most common accounting-based measures within the literature of corporate governance (Baysinger and Butler, 1985; Cochran *et al.*, 1985; Hoskisson *et al.*, 1994), namely the return on equity (ROE), and one market-based indicator, namely the market capitalization. For the last variable we computed a natural logarithm in all analyses. These two variables are treated as dependent variables.

3. Empirical findings

The analysis of data was done with SPSS 16.0. One of the first analyses implied was the descriptive statistics for the variables included in the study; these results are highlighted in *Table 2*. Next, Pearson correlation and regression analysis were performed to test the hypotheses proposed within this research (*Table 3* and *Table 4*). The findings about board attributes in Romania suggest that these tend to be very different from boards in other countries with respect to size and very similar with respect to female representation, outside directors representation and even CEO duality. The average size of our sample of Romanian publicly traded companies is rather small, comprising an average of 5.00 directors with a range from 2 to 11. In the United States, for example, similar studies reported averages of board size of 12.38 (Hanson and Song, 2000) and 12.42 (Barnhart and Rosenstein, 1998) directors, while in the United Kingdom, the average size of boards is 8.56 directors (Canyon and Peck, 1998). The mean proportion of females within Romanian boards is 13.50%; this might look like a small percentage, but in fact it is comparable to other results of female representation. For example, the study performed by Bernardi *et al.* (2006) upon boards of directors associated with Fortune's "100 Best Companies to Work For" revealed a female representation of 12.00%. The mean proportion of outside directors is 84%, which is similar to the proportion of boards in Australia (Stapledon and Lawrence, 1996) or even in the United States (Bhagat and Black, 2002). With respect to the chairman, we found a notable chairman-CEO duality of 35.70%.

Table 2. Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. deviation
No_employees ^a	56	3.26	10.03	6.366	1.276
Comp_revenue ^a	56	15.65	23.72	18.669	1.771
Comp_age	56	3.00	17.00	12.732	3.956
BOD_size	56	2.00	11.00	5.000	1.868
BOD_age	56	39.60	64.20	50.780	6.327
BOD_female	56	.00	.60	.135	.171
BOD_non_executives	56	.20	1.00	.841	.193
BOD_duality	56	.00	1.00	.357	.483
Diversification	56	26.71	100.00	72.120	23.401
ROE	56	-286.65	48.57	-6.692	45.919
Market_capitalization ^a	56	13.89	23.51	18.075	2.164

^a Natural logarithm

Source: authors' own calculation based on data gathered.

Table 3. Pearson correlations

Variables	1	2	3	4	5	6	7	8	9	10	11
1	2	3	4	5	6	7	8	9	10	11	12
1 No_employees ^a	1										
2 Comp_revenue ^a	.72**	1									
3 Comp_age	-.07	-.16	1								
4 BOD_size	.52**	.43**	-.00	1							
5 BOD_age	.09	-.04	.05	.02	1						
6 BOD_female	-.18	-.14	-.17	-.06	-.03	1					
7 BOD_non_executives	.00	.05	-.12	-.03	-.06	-.02	1				
8 BOD_duality	-.24	-.16	.22	-.04	.06	.12	-.39**	1			
9 Diversification	-.28**	-.06	-.01	-.33**	.05	-.03	.11	-.08	1		

RECENT ISSUES IN ECONOMIC DEVELOPMENT

<i>I</i>	2	3	4	5	6	7	8	9	10	11	12
10 ROE	.21	.08	.00	.08	0.05	-01	.37**	-.12	.07	1	
11 Market_capitalization ^a	.75**	.87**	-.14	.53**	-.02	-.08	.06	-.18	-.20	.20	1

^a Natural logarithm. ** Correlation is significant at the 0.01 level (2- tailed). * Correlation is significant at the 0.05 level (2-tailed).

Source: authors' own calculation based on data gathered.

In the first model, which accounts for 22% of the variation, the diversification strategy was regressed against the five variables defined for the board of directors and the three control variables. The variable number of board members is negatively and significantly linked to strategy ($\beta = -3.23$, $p < .10$). The other board of directors' variables do not have any significant impact on the formulation of strategy. These findings allow us to conclude that Hypothesis 6 was partially supported.

Board attributes and diversification were estimated both together and separately as predictors of company performance. In the second model of financial performance the control variables together with board attributes variables explained 21% of the variance in return on equity. The findings provide support for Hypothesis 4 as the proportion of non-executive directors was found to have a positive association with this financial indicator ($\beta = 13.637$, $p < .05$). The third model accounts for 81% of the variance and predicts the impact of board attributes on the market-based indicator, which is market capitalization. In this case, the variable board size has a strong influence on the financial results of the companies ($\beta = .15$, $p < .10$). This model, which is highly significant ($F = 25.46$, $p < .01$), provides evidence for supporting Hypothesis 1.

In last two models the financial indicators were regressed against the control variables, board attributes and diversification strategy. Model 4 accounts for 23% of the variance and offers support for Hypothesis 4 and partial support for Hypothesis 7. It was found that there is a positive and significant correlation between the proportion of independent directors and return on equity ($\beta = 99.59$, $p < .05$). In the last model, the independent variables were able to explain 81% of the variance in market capitalization ($F = 22.69$, $p < .01$); however no significant associations were found between board attributes and performance.

Table 4. Results of the regression analysis

<i>I</i>	Diversification Model 1	Performance (ROE) Model 2	Performance (Market capitalization) Model 3	Performance (ROE) Model 4	Performance (Market capitalization) Model 5
<i>1</i>	2	3	4	5	6
No_employees ^a	-8.607* (-2.23)	13.64** (1.79)	.36* (2.09)	16.40* (2.05)	.31** (1.69)
Comp_revenue ^a	4.83** (1.88)	-4.83 (-.95)	.80† (6.94)	-6.38 (-1.22)	.83† (6.94)
Comp_age	.15 (.19)	.52 (.32)	-.00 (-.05)	.47 (.29)	.00 (.02)
BOD_size	-3.23** (-1.68)	-.17 (-.04)	.15** (1.81)	.86 (.22)	.13 (1.53)
BOD_age	.46 (.96)	.22 (.23)	-.00 (-.27)	.07 (.07)	-.00 (-.13)
BOD_female	-7.41 (-.40)	11.65 (.31)	.77 (.92)	14.02 (.38)	.72 (.86)
BOD_non_executives	4.67 (.27)	101.09* (2.99)	.35 (.46)	99.59* (2.95)	.38 (.49)

RECENT ISSUES IN ECONOMIC DEVELOPMENT

	1	2	3	4	5	6
BOD_duality		-6.67 (-.91)	8.31 (57.9)	-.04 (-.13)	10.45 (.72)	-.08 (-.26)
Diversification					.32 (1.11)	.00 (.96)
R ²		.22	.21	.81	.23	.81
F		1.67	1.59	25.46	1.56	22.69

* Statistically significant at less than .05 level. ** Statistically significant at less than .10 level. † Statistically significant at less than .01 level. t-statistic in brackets.

Source: authors' own calculation based on data gathered.

4. Discussions and implications

The findings of our study draw a number of theoretical and managerial implications. Firstly, the study is in line with the managerial hegemony theory according to which boards of directors are not involved in any strategy-making decisions. With a single exception, board attributes tested in our study didn't correlate with diversification strategy. The Romanian corporate governance framework entitles managers to take care of the strategy process, whereas board members will try to fulfil their supervisory role and ensure that managers act in the company's best interest. These findings are consistent with other previous work performed on board composition and diversification strategy (Chen *et al.*, 2009).

Secondly, these results provide support for agency theory, which proposes that outside directors can make a significant contribution to the effectiveness of board activities and also that they can contribute to an increased financial performance of the companies. According to the findings, boards with non-executive members positively influence the financial results of the companies when using an accounting-based indicator. We used the return on equity as this measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. This is consistent with other previous works performed on boards of directors (Bhagat and Bolton, 2008; Jackling and Johl, 2009; Jermias, 2007). In this case, the non-executive members are seen as offering valuable inputs as they contribute by increasing the general intellectual knowledge of the group, leading to better decisions that are reflected in the financial outcomes of the companies.

Thirdly, from a market-based view, the findings suggest that the size of a board can positively influence the performance of the company. These results were obtained by using the market capitalization indicator as a dependent variable. Previous studies proved that the size of board may have a positive influence upon the performance of the companies, the main reason for considering so was that more people could generate more intellectual knowledge that could be useful for the financial outcome of the company (Dalton *et al.*, 1998; Pearce and Zahra, 1991).

Fourthly, the results show that neither the average age of board members nor the female representation do impact the financial performance of the Romanian listed companies. Other scholars found similar results. For example, on a survey of Danish listed companies, Rose (2007) found that there is no significant correlation between the proportion of women who sit on a board and financial performance and argued that this might be due to an adoption of the behaviour and norms of the conventional board members. Similar results were obtained for Japanese and Australian samples (Bonn *et al.*, 2004).

Fifthly, of general interest is the positive relationship between company size and financial performance. The size of the company was measured through the number of employees and the revenue. Both variables were found to influence positively the accounting-based indicator and the market-based indicator. Larger companies seem to perform better than the smaller ones.

Conclusions

Company performance remains one of the major concerns of managers from both developed and developing economies. Moreover, scholars have tried over the years to explain what is augmenting the financial results of companies. There is a general belief that once a company is able to capitalize on its competitive advantage, the higher profits will start to appear.

The paper investigated the relation between boards of directors' attributes and diversification strategy and also the relationship between boards of directors' attributes and firm performance on a sample of companies listed on the Bucharest Stock Exchange. The way in which boards influence the strategy is still quite unclear as a many studies performed within this framework have failed to lead to a consensus in terms of how strategy is shaped by board members. From a contextual point of view (Pugliese *et al.*, 2009), the present study was settled under the input-output approach that assumes there is a link between board composition and strategic outcomes, such as diversification, innovation, mergers and acquisitions. The strategy-making process is time consuming and any strategy is intended to be implemented on a long-term basis. Being able to reduce the time needed to formulate and implement the strategy is an indicator of potential success for the company. Fewer people within a board can represent a decrease in time for the decision making process and consequently this could lead to a better implementation of the strategy.

The paper points out the necessity for more non-executive directors within the Romanian boards. It is widely accepted that the ideal board should be comprised of a greater proportion of outside directors, not only because they can introduce a balance of power into the "upper echelons" (Hambrick and Mason, 1984), but because they also enhance the company performance.

The results presented are subject to some limitations that need to be taken into consideration when interpreting the findings. First, it should be noted that the study used a small sample of the companies listed on BSE. Secondly, the study addressed only some of the board attributes that are reported in the literature as main determinants of corporate performance. Thirdly, only the moderating effect of diversification strategy was checked for the relation between board attributes and performance. Future areas of research could focus on a larger sample of companies and include other board of directors' variables, such as number of board meetings or board leadership. However, the paper contributes to the body of literature that describes the link between boards and corporate performance in an emerging economy.

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