SECTION: FINANCIAL AND ACCOUNTING POLICIES AND CORPORATE GOVERNANCE IN THE GLOBAL CONTEXT

STUDY ON CORPORATE GOVERNANCE AT ROMANIAN BANKING INSTITUTIONS

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Abstract:

The credit institutions have a very important role in the economy of a country. The investors' interests are protected by the system of corporate governance. The authorities have made efforts to implement the principles on corporate governance issued internationally. Based on these considerations, this study aims to analyze the stage of implementation of these recommendations to the credit institutions from Romania, at 31.12.2017. The results of the study show that the entities which made the subject of the research have partly implemented the international corporate governance recommendations and practices.

1. Introduction

The present study aims to determine the level of compliance with the principles of corporate governance in banking entities in Romania, and in particular those regarding the transparency of policies for the appointment of its governing bodies, its structure and its role, at the end of 2017.

The corporate governance system is intended primarily to protect investors' interests. Loses to shareholders caused by multinational companies' management as a result of financial scandals have prompted some of them to devise a mechanism to protect their interests.

Corporate governance provides a greater degree of assurance that an effective control system is implemented at the entity level, ensuring that all users are properly and legally conducted. An effective corporate governance process leads to increased financial transparency and level of financial responsibility diminishing the risk of fraud.

2. Literature review

The concepts of corporate governance are presented in a series of theoretical and empirical studies, in the framework of internationally recommended guidelines but also in the professional rules developed by the competent bodies. In terms of practical concerns, there are more and more countries implementing the corporate governance system, starting from internationally-based principles.

Marcia Millon Cornett and other authors (Cornet et al, 2009) have analyzed the influences of corporate governance mechanisms on earnings and margins at the largest US listed bank. The study found that payments to the CEO for performance sensitivity, management independence and capital are directly positive with earnings and inversely proportional to revenue management.

Jonathan R. Macey and Maureen O'Hara explained the role that corporate governance plays in the performance of commercial banks (Macey, O'Hara, 2003).

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Kenneth Spong and Richard J. Sullivan have approached the role of corporate governance in increasing bank performance by analyzing the relationship between the quality of management and the financial performance of the entity (Spong, Sullivan, 2007).

Professor Ross Levine of the University of Minnesota concluded by studying that poor bank governance affects the entire economy, with negative consequences on economic development.(Levine, 2003)

About the implementation of O.E.C.D. on corporate governance, a series of studies have been developed at national level on the degree of implementation of these principles in banking entities in Romania. (Bîgioi A. D., 2012). A series of studies have been developed on the implementation of these principles in emerging economies (Feleaga, Feleaga, Voicu, Bigioi, 2011).

Bigioi A. and Bigioi C. (2017) have analyzed the insurance companies from Romania and they concluded that insurance companies have partially implemented the provisions of corporate governance principles.

3. Data and research methodology

The banking entities that were analyzed were extracted from the website of the National Bank of Romania. All 25 commercial banks available at http://www.bnro.ro/banci-comerciale-1333.aspx were selected. For each subject under investigation the data was extracted from the web sites of the entities concerned, Information on age, nationality and studies of Board members was completed with www.bloomberg.com.

From the point of view of the research methodology, the scoring method is combined with certain tests specific to the financial audit activity. For each entity, we estimate the degree of implementation of corporate governance principles based on the empirical tests mentioned above. The data will be grouped according to the classification criteria imposed by the objectives specific to each problem. Conclusions will be made on the basis of data processing.

The research was conducted in the following stages:
- the data was selected
- the data was been grouped according to specific objectives
- the data was processed taking into account the degree of implementation of the principles o corporate governance
- the results were centralized
- the results were analyzed and interpreted
- the conclusions were drawn.

All 25 commercial banks in Romania listed on the National Bank of Romania's website in the Credit Institutions Register, Part I-Banks, were surveyed.

In order to accomplish the study, we defined the following general empirical test function (Bigioi A, 2012):

General function of the Board of Directors $((f_5(ts_5))$:

$$F_5(ts_5) = \{ \ f(\delta_1, \delta_2, \ \delta_3, \ \delta_4, \delta_5) \mid 0 \leq \ f_{5i}(ts_{5i}) \leq 5\},$$

$$\delta_1, \delta_2, \ \delta_3, \ \delta_4, \delta_5 \in [0;1],$$

$$i \in [0;25],$$

$$f_{5i}(ts_{5i}) = \quad (f(\delta_{1i}) + f(\delta_{2i}) + f(\delta_{3i}) + f(\delta_{4i}) + f(\delta_{5i})) \quad\quad (1)$$

δ_1 represent the estimated value of the parameter checking on the condition that there is a list of members of the Board of Directors.

δ_2 represent the estimated value of the parameter checking on the condition that there is a professional presentation of each administrator.

δ_3 represent the estimated value of the parameter checking on the condition that there is a list of members of each committee/board, indicating those who are members of Board of Directors.

δ represent the estimated value of the parameter checking whether the entity has published information on the existence of a report on the Board of Directors' meetings, including number of sessions, and the average number of presences of each administrator.

δ_5 represent the estimated value of the parameter on checking the condition if the entity has disseminated information on the existence of a performance assessment procedure for each administrator.

In order to conduct the study, we used for each banking entity which is the subject of this study, the following model questionnaire (Bigioi A, 2012) (Table no 1):

Table 1. The questionnaire

Banking entity:	
Verified conditions:	Score obtained:
1. Is there a list of members of Board of Directors?	
2. Is there a presentation of each administrator?	
3. Is there a list of members of each committee, indicating who is member of Board of Directors?	
4. Is there an activity report on Board of Directors' sessions, including the number of sessions, and the average attendance of each administrator?	
5. Is there a procedure for assessing the performance of each administrator?	
Total score:	

(Each Yes answer is scored 1 point)

The scoring method was conducted in the following stages:

-a set of standard conditions that bank entities would have had to implement within its corporate governance policies were established. These standards conditions were determinate on the basis of international and national corporate governance principles and practices, as well as the recommendations made by the Bucharest Stock Exchange, on the implementation of the corporate governance code.

-for each condition a standard code was established

-the total score for each bank was calculated

-the results obtained have been centralized in order to interpret them

-the resulting information has been analyzed, drawing a series of conclusions.

4. Results of the study

The scores were obtained following the application of the above mentioned questionnaire (table no 2).
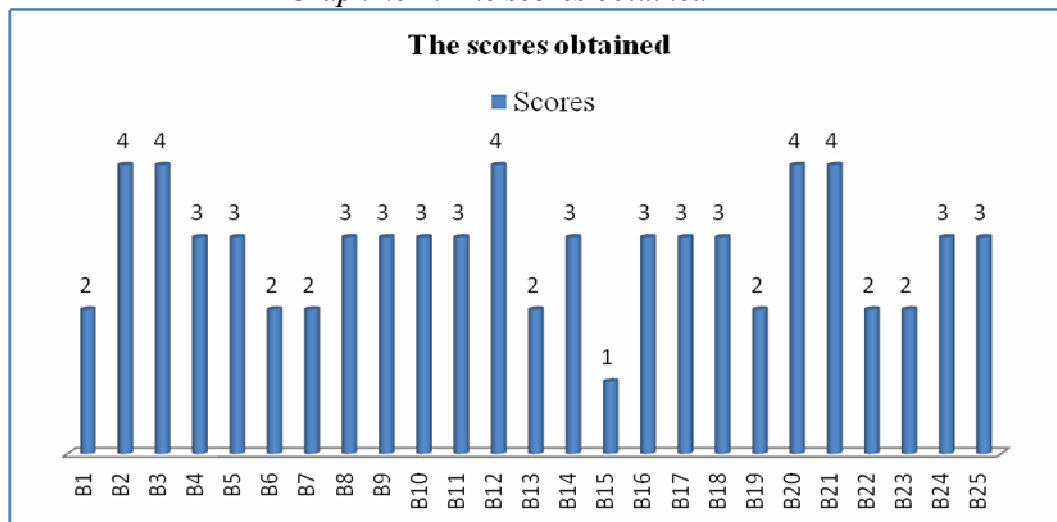
Table 2. Scores obtained

Code	Score
B1	2
B2	4
B3	4
B4	3
B5	3
B6	2
B7	2
B8	3
B9	3
B10	3
B11	3
B12	4
B13	2
B14	3
B15	1
B16	3
B17	3
B18	3
B19	2
B20	4
B21	4
B22	2
B23	2
B24	3
B25	3
General average	2.84

Source: own processing based on data extracted from www.bnr.ro

The scores are graphically represented in Graph 1.

Graph no 1. The scores obtained

Source: own processing based on data extracted

The credit institutions in Romania have partly implemented the international corporate governance recommendations and practices, with the average score of 2.84 points out of a maximum of 5 points.

Most credit institutions opted for a unitary management system (Graph no 2).

Graph no 2. Type of management system
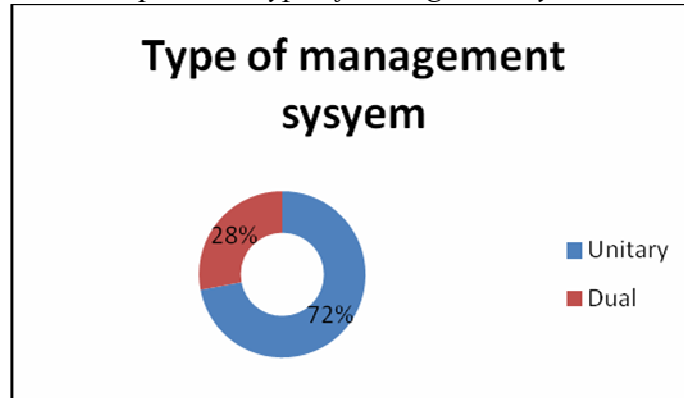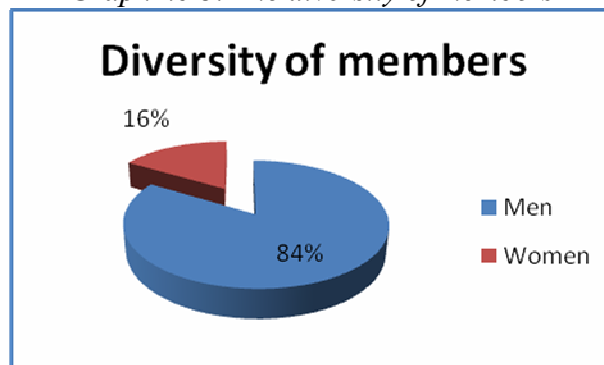

Source: own processing based on data extracted

All institutions have an audit committee and a risk management committee.

As a positive element, we mention that most banking entities publish the list of board members, but 12 of them (48%) do not publish information about the members. Not all credit institutions present details about studies and professional experience. BRD offers the most information about the members of the Board.

The average number of members is 7. Management board have a minimum of 3 and a maximum of 14 members.

A negative element that was found following the study was that the international recommendations on the diversity of board members were not respected. In this respect, we mention that the majority of the members of the board are men and Romanians (graph no 3), a better balance of them being able to ensure a better quality of the board's work.
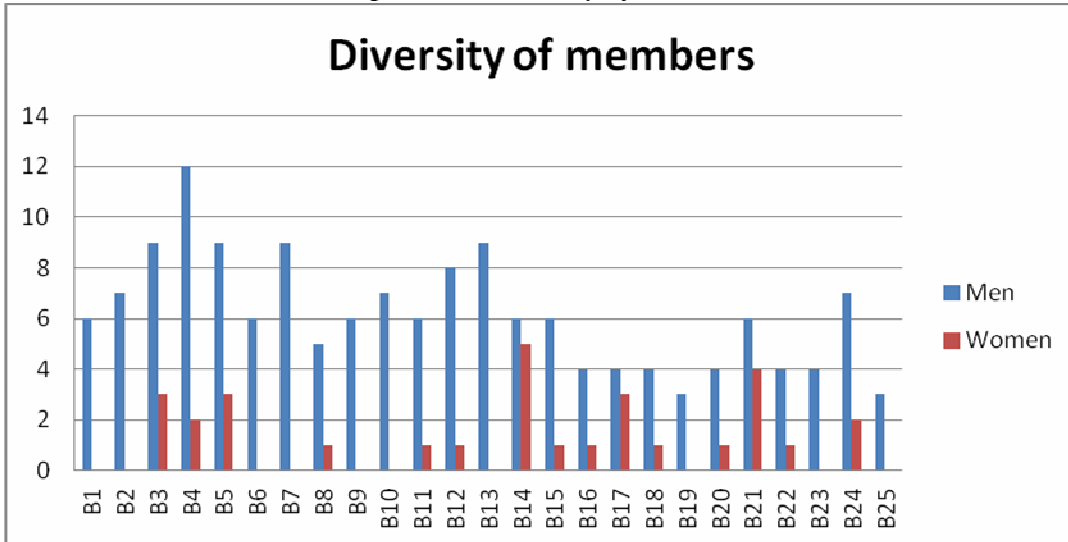
Graph no 3. The diversity of members

Source: own processing based on data extracted

The share of women is 16.30% and we noticed that in the case of 10 banks there is no woman in the Board of Directors. Only 3 banks have an approximately equal share of men and women (Graph no 4).
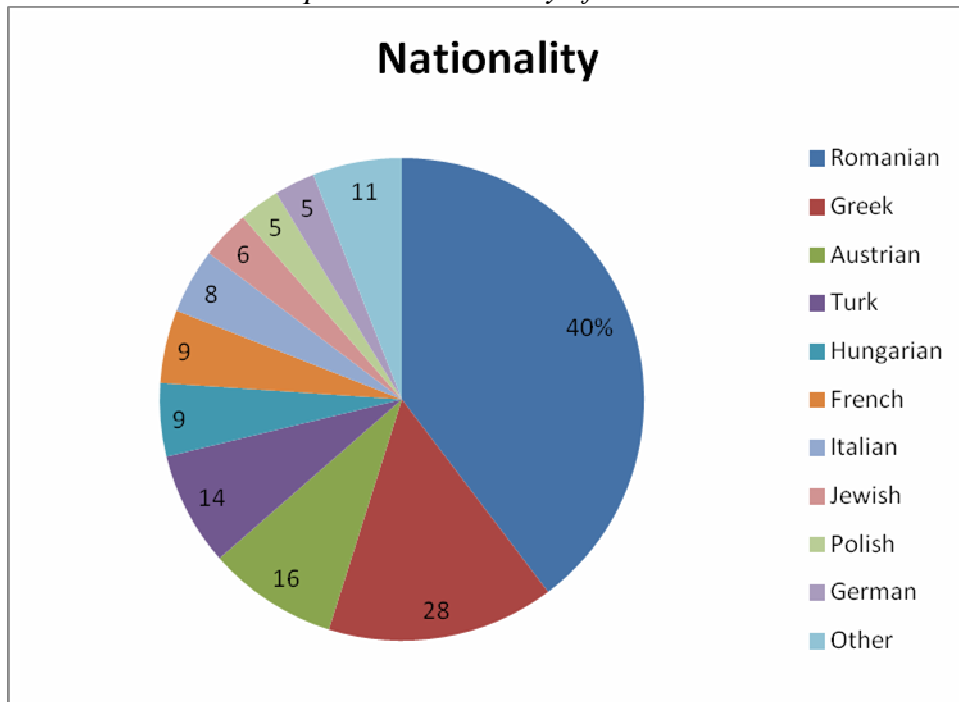
Graph no 4. Diversity of members

Source: own processing based on data extracted

Most members are Romanian, followed by Greeks, Austrians and Turks (graph no 5).
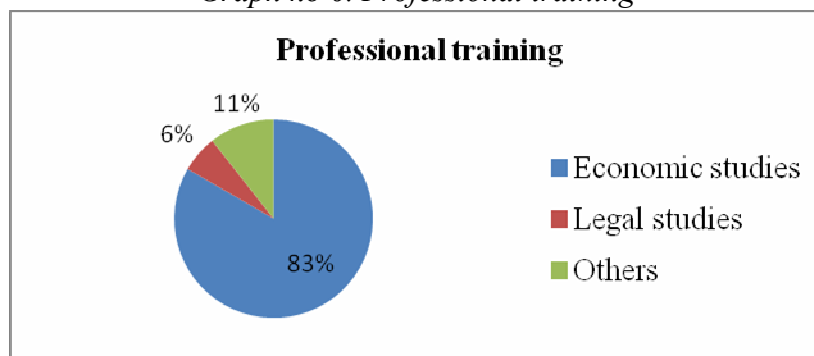
Graph no 5. Nationality of members

Source: own processing based on data extracted

In terms of professional trainings, most members have economic studies (Graph 6).
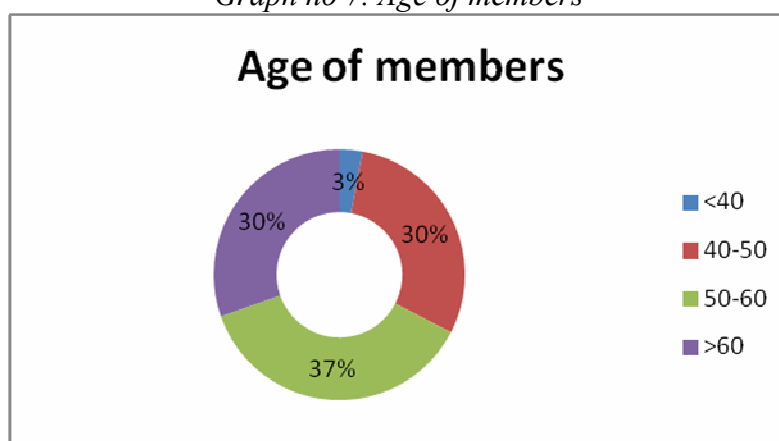
Graph no 6. Professional training

Source: own processing based on data extracted

In terms of age of Board members, most falling in the age segment 50-60 years (Graph no 7). The youngest member is 37 years old and the oldest is 75 years old.

Graph no 7. Age of members

Source: own processing based on data extracted

Regarding the transparency of banking entities in terms of board members' meetings, we found that most credit institutions did not publish a record of meetings in which the number of meetings and the number of members present at those meetings were to be presented. The number of sessions, as well as the average number of presentations of each member is mentioned in the Report of Transparency Requirements and Information Disclosure in 10 cases.

Regarding the existence of a procedure for assessing the activity of members of Board of Directors, we have found that most banking entities are not transparent in this respect.

5. Conclusions

The credit institutions in Romania have partly implemented the international corporate governance recommendations and practices. Information on Board members is missing or very brief in many cases. There is no gender diversity, predominating men. As a nationality, Romanians predominate. There is no information about the meeting of the Board of Directors and the presence of members there. Most Romanian banks have implemented the unitary management system. All institutions have an audit committee and a risk management committee.

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