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Corporate Governance within the Romanian Bank Sistem

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Abstract

By using the model of the score function (Spătăcean, I.O. and Ghiorghită, L., 2012), the current research work aims to identify the degree to which the concepts, principles and techniques typical to Corporate Governance are spread, by taking 14 Romanian credit institutions as reference.

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1. Introduction

In the context of the new economy, the issue of corporate governance within the financial-bank system increases the interest of practitioners and European [COM(2010) 284 final] and world organizations, interested in promoting some international governance principles, either that we talk about the OECD principles, the recommendations of the Basel Committee in the bank field or community law (The Directive 2006/46/EC forces financial institutions classified on a regulated market to elaborate a corporate governance code which they have to abide by and to point out which are the parts of the code from which they derogate and the reasons for that). We do not aim to present the issues related to corporate governance within the bank system, where there already exist excellent observers (Mehran H. and others, 2011, Mehran H. and Mollineaux L., 2012, de Haan J. and Vlahu R, 2013), but rather to make an analysis of the capacity of the Romanian bank system to abide by the provisions in the field of corporate governance.

In the Romanian legal system, both the laws in force (The Corporate Governance Code of the Bucharest Stock Exchange) and the most recent studies (Bunea M., 2013, Spătăcean I.O. and Ghiorghită L., 2012) admit that, when it

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comes to dealing with the report conditions on the corporate governance applying to credit institutions, the following analysis pillars/axes are relevant for testing the degree of observing the principles typical to the field:

1. governance and control structures of credit institutions, as well as their activity, paying a special attention to the Administration Board;
2. the role of monitoring authorities and interest conflicts;
3. the treatment of minority shareholders and the situation of interests owners;
4. risks governance and adjustment of the internal control function to the risk profile of the institution;
5. internal audit;
6. ethics.

Unfortunately, those involved in the Romanian bank system have not managed to really understand risks, so that several gaps of discontinuity and a strong lack of authority in terms of decisional factors have been registered, the immediate consequence being the creation of a considerable trust deficit in credit institutions; the fields particularly affected are: *conflict interests, the effective enforcement of corporate governance principles, the role of monitoring authorities and auditors*. In this context, in order to accomplish our objective, we have deemed necessary to expand our research, from the 6 pillars initially presented, to a thorough analysis and presentation of the concepts/attributes, building up a set of 10 hypotheses which are to be evaluated within the Romanian bank area.

2. Model

The current study involves both a qualitative and quantitative approach, on the basis of the empirical data gathered out of a sample of 14 credit institutions. The qualitative side of the approach is explained by the fact that the study has required interpretations, explanations, understanding of the phenomena analysed, while the quantitative side has been focused on quantifications and numerical expressions, using a score system based on a function determined for each credit institution. The data collection phase has been based on techniques of mediated collection of information from the *Corporate Governance Codes* posted on the websites of the banks analysed, but also from the *Published Annual Reports*; the score function has allowed for transforming the data with an assertive and qualitative character into numerical quantitative data.

The sample analysed is composed of four banks with Romanian capital: Banca Comercială Carpatică, Banca Transilvania, CEC Bank, EXIM Bank and by ten credit institutions activating within some international holdings: BCR, BRD, Unicredit, Volksbank, Raiffeisen, ING Bank, OTP Bank, Garanti Bank, Millennium Bank, Banca Românească.

The research project proposed aims to identify the degree to which the Romanian credit institutions abide by the provisions of corporate governance, so as to maximize their performance. In order to achieve this goal, a set of 10 hypotheses has been elaborated:

Hypothesis No. 1: The Administration and Independence Board

Hypothesis 2: Identifying the competences corresponding to the responsibilities taken upon by the members of the Administration Board.

Hypothesis 3: Executive board accountable for and familiarized with bank risks

Hypothesis 4: Adequate standards for remunerating the executive board

Hypothesis 5: Treatment of shareholders and interests owners

Hypothesis 6: The role of the Audit committee and internal audit risk oriented

Hypothesis 7: The risks governance function

Hypothesis 8: Adjusting the internal control function to the risk profile of the credit institution and monitoring operational objectives

Hypothesis 9: Financial transparency and report

Hypothesis 10: Ethical code

By using the professional reasoning for the hypotheses mentioned above, we have assigned an importance coefficient k_i , typical to each pillar considered to be relevant for the enforcement of corporate governance provisions in the Romanian bank system, as it can be seen in Figure no. 1.

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