CORPORATE GOVERNANCE CODES OF BEST PRACTICE OF TOP ROMANIAN BANKS

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Abstract: *Very much research has been developed into debating what caused the global financial crisis and the possible solutions for avoiding a future one. Therefore, concern with governance issues and their focus has increased dramatically in recent years. An effective corporate governance requires supervision and stability of the authority and rights and also obligations of shareholders, stakeholders, and civil society altogether. Corporate governance cannot be considered a fixed number of regulations and procedures, but an innovative process by which the most crucial decisions in companies are managed, values and cultures are redefined, and the leaders are assessed. The governance of banks can be assessed in the same way as the corporate governance of any type of organization because the supervision of banks depends and is coordinated by the internal control bearing factors, which sometimes can lead to a bank default. The purpose of the case study is to examine the existence and regulations compliance for top ten Romanian Banks (for the year 2011), due to the fact that the banking sector considers the implementation of principles of corporate governance as having a significant importance.*

Keywords: *Corporate Governance; Codes of Good Practice; Financial Sector.*

JEL classification: *G34; G39; G20.*

1. Introduction

Very much research has been developed into debating what caused the global financial crisis and the possible solutions for avoiding a future one. Therefore, concern with governance issues and their focus has increased dramatically in recent years.

The term “Corporate Governance”, according to James Wolfensohn, former president of the World Bank, represents a fusion between the government of national states and the governance/management of companies, leading to an increasing capacity and importance of the governance of corporations in the world economy.

Corporate Governance is traditionally defined as the “system by which companies are directed and controlled.” (The Cadbury Report (1992), paragraph 2.5.)

The OECD Principles of Corporate Governance (2004) defines corporate governance as representing “a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the framework through which the objectives of the company are set, and the method of attaining those objectives and monitoring performance are determined.”

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Corporate governance cannot be considered a fixed number of regulations and procedures, but an innovative means by which the most crucial decisions in companies are managed, values and cultures are redefined, and the leaders are assessed.

In his 2009 report referring to the causes of the crisis, Lord Adair Turner, chair of the UK's Financial Services Authority, has determined seven possible causes:

(1) global macroeconomic imbalances;
(2) the increase of the banks` involvement in risky trading activities;
(3) growth in credit;
(4) increased leverage of companies;
(5) failure of banks to manage risks;
(6) unbalanced capital buffers; and
(7) a misplaced calculations in assessing risk.

The global economic crisis, having the financial institutions at its centre, created economic turmoil and enormous costs on society. The magnitude and impact of the financial crisis caught many corporate managers and boards of directors by surprise and affected central banks, regulators, supervisors, and shareholders.

According to Nichitean Andra and Asandului M. (2010), banking crises can be considered the consequences of poor governance of Financial Institutions. The authors concluded that the causes of the crises can also be linked to the process of corporate governance in the financial sector. The authors also stated that principles of corporate governance should be applied in the banking sector due to the impact that the banks have on affecting the public economies, governments and increasing scarcity of the world`s population.

The governance of banks can be assessed in the same way as the corporate governance of any type of company because the supervision of banks depends and is coordinated by the internal control bearing factors, which sometimes can lead to a bank default.

Effective governance is a necessary process, acutely much based on specific regulations. Strict regulations concerning capital, liquidity, banking activities are essential for the financial system, and effective governance coordinates and monitors the real processes inside the financial institutions.

Poor governance of financial institutions was not the sole source of global financial crisis, but it was an additional factor in the context of general vulnerability of the world economy.

Effective governance can contribute in a positive attitude in preventing future crises or narrowing their impact on the world economy; these arguments represent the basis for justifying the investment in good governance.

The participants in the governance system, namely the boards of directors, management, regulatory factors, and shareholders need to have an innovative approach to stronger corporate governance.

The financial sector needs better methods of assessing governance and of cultivating the behaviours and approaches that make governance systems work well.

2. Corporate Governance Regulations and Codes of Best Practice

Following the Cadbury Report from UK in 1992, one of the Organization for Economic Cooperation and Development (OECD)'s first projects was to develop a set of principles of corporate governance. The first such set was completed in 1999 under the name OECD Principles of Corporate Governance. These principles provided models for good practice and were not promoting an exclusive corporate governance framework for the OECD countries, but rather at promulgating principles that could be applied in all OECD and non-OECD countries.

On 22 April 2004, the 30 OECD countries approved the 2004 OECD Principles of Corporate Governance, confirming the already identified and explained 1999 corporate governance practices.

The OECD Principles aimed to promote authorities in their desire to improve the legal and institutional regulations for financial institutions and all companies for developing a good system of corporate governance. One of the unique aspects of the OECD Principles is that they operate across borders, and without preference for any particular corporate justice practice or board structure – they focus, in the true sense of the word, on 'the principles of corporate governance'.

The document containing the OECD Principles is divided into two parts: the first comprises the core principles while the second part presents the principles with annotations and is intended to help readers understand their reasoning.

The principles in the document refer to the following areas:

I) Ensuring the basis for an effective corporate governance structure;

II) The rights of shareholders and key ownership functions;

III) The equitable treatment of shareholders;

IV) The role of stakeholders;

V) Disclosure and transparency;

VI) The responsibilities of the board.

The Basel Committee on Banking Supervision (2006) also represents a specific regulation, emphasising banking supervisory matters. Its purpose is to provide a better understanding of key supervisory issues and improve the quality of universal banking supervision.

In any event, the crisis has been an opportunity to re-examine corporate governance practices in banks and other financial institutions, to determine their role in the crisis, and to learn from past mistakes.

Such an investigation is without doubt salutary. It has become a global exercise, extending beyond those countries directly involved in the meltdown, to developing countries, emerging markets, and transition economies.

The first Code of CG in Romania was issued in June 2000 by the International Center for Entrepreneurial Studies and was the focus of public companies listed on BSE. Code rules have not been so well received by the market on the basis that they had particular regard to the protection of minority shareholders. Subsequently, in 2008 issued the Code of Corporate Governance of BSE, which comprises 19 principles.

In 2012, the Bucharest Stock Exchange (BSE)'s Board approved the launch of a BSE - EBRD common corporate governance project in Romania, worth a total of 296,000 Euros.

The project's aim is to amend corporate governance and regulations for the listed companies in Romania, by improving the recommendations in the BSE's Code of Corporate Governance.
In 2008, the BSE drew up a corporate governance rules related to the companies listed on the BSE. Companies listed on the 1st tier were required to follow minimum 14 recommendations, by issuing an Annual Corporate Governance Statement showing which elements they have complied with, and providing arguments in the contrary.
For the fiscal year 2011, the listed Romanian companies reported for the first time the degree of compliance; still, the clarity of most companies is insufficient and the BSE desires to develop the best practices in Corporate Governance.
The BSE has therefore founded the Institute of Corporate Governance (BSE-IGC), whose purpose is to raise at European standards the cultural identity and environment of Romanian firms and has also approached the Legal Transition Team ("LTT") of the European Bank for Reconstruction and Development to strengthen the implementation of the BSE Code.

3. Corporate Governance Codes of Best Practice of Top Ten Romanian Banks

The purpose of the case study is to examine the existence and regulations compliance for top ten Romanian Banks (for the year 2011), due to the fact that the banking sector considers the implementation of principles of corporate governance as having a significant importance. The table below presents the first ten Romanian banks, for the year 2011, according to a specific methodology of Ernst & Young Romania, presented and described within the 2012 Report called Major Companies in Romania. The position of banks takes into consideration their market share and also their reported profit/loss for the previous fiscal year.
Out of the ten Romanian banks presented below, only two of them, namely Banca Transilvania S.A. and BRD - GROUPE SOCIETE GENERALE S.A. are listed on Bucharest Stock Exchange, and BANCA COMERCIALĂ ROMÂNĂ S.A became delisted until 2009.
Despite this fact and also knowing that usually, the listed companies are required to comply with the specific Corporate Governance BSE Code and to have their own Code of Best Practice, all the ten financial institutions presented in the table respect the organisational values, serving them to maintain and improve their good reputation, respect for clients and generally for all categories of stakeholders that interact with their institution.

Table 1: Top Ten Romanian Banks (2011)

Rank	Company Name	Market Share	Profit/Loss 2011
1	RAIFFEISEN BANK S.A.	7 (%)	320.068.972
2	BANCA TRANSILVANIA S.A.	7 (%)	131.870.976
3	VOLKSBANK ROMANIA S.A.	5 (%)	-698.881.415
4	BRD - GROUPE SOCIETE GENERALE S.A.	14 (%)	465.265.368
5	CEC BANK S.A.	7 (%)	67.445.929
6	UNICREDIT ȚIRIAC BANK S.A.	6 (%)	103.062.227
7	ALPHA BANK ROMANIA S.A.	5 (%)	-117.707.116
8	BANCA COMERCIALĂ ROMÂNĂ S.A.	20 (%)	-510.818.823
9	ING BANK N.V. AMSTERDAM SUCURSALA BUCUREȘTI	4 (%)	129.611.734
10	RBS BANK (ROMANIA) S.A.	2 (%)	100.068.925

Source: 2012 Edition Major Companies in Romania, 2012, developed by Ernst & Young Romania and doingbusiness.ro, [Online], Available: http://mcr.doingbusiness.ro/uploads/50f92056b46aaMCR2012.pdf, National Bank of Romania, Trade Register, Ministry of Finance

Referring to the first financial institution in the top, namely Raiffeisen Bank S.A., their Corporate Governance so-called Code of Conduct, synonym of the Code of Best Practice defines the basic values of the bank and constitutes the basis of a corporate culture that respects the law and is orientated on ethic principles. The bank`s Code ensures that the organisational conduct and ethical matters are in compliance with the highest standards, which are based on core values for the banking sector: customer focus, professionalism and integrity, respect, innovation, teamwork.

Banca Transilvania has created a specific section on the bank`s web-site, namely Corporate Governance, referring to the Organizational Structure, Management Structure, Internal Control Structure and Incentive/Remuneration Structure. The bank`s 2012 Annual report states that the system of corporate governance has been designated in line with best practices with respect to the internal organization of banks in Romania, reviewing periodically its principles and implementing a process to monitor compliance. Also, due to their corporate responsible conduct towards the shareholders, the corporate governance has placed a greater emphasis on the bank’s long term success than on short-term success on the stock market, accomplished through the organisation`s management system.

Volksbank has also developed a distinct section on the bank`s web-site, dedicated to Corporate Responsibility and the bank shares a Code of Good Governance that emphasizes the goal of responsible corporate management and control to create sustainable and long-term value.

Within the Shareholders and Investors section of the bank`s web-site, BRD - Groupe Societe Generale S.A. inserted the Corporate Governance Code. The Code comprises of six parts, namely: the Introduction; elements regarding the Corporate Governance Structures (Shareholders, Board Of Directors and Executive Management); Conflicts of Interest, Operations with Affiliated Persons and Transactions of Insiders; Transparency, Information and Communication; Social

Responsibility And Relations With Concerned Parties and Final Provisions. According to Code, the ultimate objective is to ensure the good corporate governance of the Bank, to strengthen the balance between administration, management and the performance objectives, on one hand, and control and evaluation of efficiency and performance, the adequate management of actual and potential risks and the careful supervision of compliance with the regulations, on the other hand.

CEC Bank also gives details regarding to the bank` mission, values and character, stating that the critical values are trust, honesty, stability based on safety, convenience and ease, and the bank`s characteristic values are custom and respect for the national symbol.

Corporate Governance also represents a priority for Unicredit Țiriac Bank S.A., regarding its management values, the shareholder` structure and general business facts. Since 2001, UniCredit has annually drawn up a Corporate Governance Report for distribution to its shareholders, individual and institutional investors and contains information on the Company's corporate governance structure and its level of compliance with the Corporate Governance Code for Listed Companies.

Alpha Bank has adopted and also implemented, starting with the year 1994, the principles of corporate governance, adopting clarity in communication with the Bank's Shareholders. According to the bank`s Code, Corporate Governance is a system of principles underlying the organisation and administration of a modern company, aiming to protect and satisfy the interests of all those who relate with the company. The bank does not consider the Corporate Governance a fixed programme, but rather, by a continuous effort to integrate parameters proposed each time in conjunction with the ever increasing expectations of society. Correct corporate structures and procedures result in successful Corporate Governance, which promotes the recognition and prestige of the company. Alpha Bank`s Corporate Governance Code was last updated in 2011.

Banca Comercială Română S.A. emphasises the importance of Corporate Governance, by repositioning itself and its objectives as regards corporate governance are primarily focused on: responding to the latest changes; strengthening stakeholders' confidence; accelerating the decision-making and implementation process; improving corporate governance processes and risk management. The bank focuses on Corporate Governance essential components, such as general principles and policies, the Code of Ethics, the General Meeting of Shareholders, BCR Charter, the Supervisory Board, the Management Board, BCR Shareholders and International Activity.

Ing Bank N.V. Amsterdam Sucursala București relies on the Dutch Banking and Corporate Governance Codes that lay out elements related to: Legal framework and Regulators, Management structure, Supervisory Board, Executive Board, Management Board Banking, Management Board Insurance, Shareholder influence and Information about auditors. The bank believes good corporate governance entails a careful balance between the short and long-term interests of the company.

RBS Bank is governed by a system of Boards and committees and continually seeks to maintain high standards of corporate governance in compliance best practice.

4. Conclusion

Values and culture are the primary identities that affect the behaviour of people throughout the banks and the effectiveness of its governance arrangements. Well-implemented governance structures and processes are essential for Financial Institutions (including banks) governance. Although values and culture are not quantitative elements, they have a strong impact on corporate governance effectiveness and therefore should have an enormous importance.

Financial Institutions leaders have to oversee and evaluate governance in a different approach by considering it a vital, ongoing process and not a fixed set of procedures.

The importance of values and culture should be highlighted by promoting trust, honesty, integrity, proper motivations, independence, respect for others` ideas, openness/transparency, the courage to speak out and act. The board of directors and senior executives has to develop a particular strong philosophy that embeds these values.

Because of their ability to influence behaviour and the implementation of the Financial Institutions' strategy, values and culture are essential dimensions for the examination and commitment for supervisors. The managers should pay more attention to the culture of an organisation when making investment decisions and dealing with the stakeholders.

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