
CASE STUDY ON THE CONNECTION BETWEEN THE STRUCTURE OF THE MANAGEMENT SYSTEMS AND THE PERFORMANCE OF THE BANKING ENTITIES IN ROMANIA

Cristina Elena Bigioi¹ and Adrian Doru Bigioi²

¹⁾ *Politehnica University of Bucharest, Romania*

²⁾ *The Bucharest University of Economic Studies, Romania*

E-mail: cristina.dumitru@upb.ro; E-mail: adrian.bigioi@cig.ase.ro

Please cite this paper as:

Bigioi, C. and Bigioi, A.D., 2020. Case Study on the Connection Between the Structure of the Management Systems and the Performance of the Banking Entities in Romania. In: R. Pamfilie, V. Dinu, L. Tăchiciu, D. Pleșea, C. Vasiliu eds. *6th BASIQ International Conference on New Trends in Sustainable Business and Consumption*. Messina, Italy, 4-6 June 2020. Bucharest: ASE, pp. 791-798

Abstract

Banks play a decisive role in the economic growth through their quality as intermediary in the relationship between economies and investments. The purpose of their activity is to obtain bank profit. The system of the corporate governance protects the investors' interest. The present case study aims to analyze whether there is any connection between the structure of the management systems, respectively if their type and the independence of the members influence the performance of the banks in Romania. The analysis was made based on the financial data for the year 2018 of 24 commercial banks in Romania. The results of the study show that most banks that have a dual management system and independent members have a higher rate of return.

Keywords

Corporate governance; Performance; Independence; Administration system.

JEL Classification

M12; G34

Introduction

The role of corporate governance implementation is to increase the financial performance of the companies, respectively to increase their share value. The implementation of corporate governance ensures the existence of effective control at entity level, reducing the risk and thus protecting the interests of investors. Based on these considerations, the present study aims to analyze the financial results of the Romanian banking entities and to determine whether the profitability of the total revenues is higher for the entities that have independent members and have a dual management system.

Corporate governance is the subject of several theoretical and empirical studies, at national and international level. One of the important aspects studied related to the relationship between corporate governance and the performance of the entity where it is applied.

Literature review

A firm can maximize value if it does not ignore the interest of its stakeholders (Jensen, 2001). Better-governed firms are relatively more profitable (Brown and Caylor, 2004), as demonstrated by applying a model of corporate governance analysis (containing 51 factors) on 2327 companies. Good performance was most highly associated with good governance, as measured using executive and director compensation.

The independence in the governance structure of banks in UK influence risk and performance (Harkin, Mare and Crook, 2020).

The management independence has a positive influence on performance for listed companies in Thailand, along with other factors: board size, meeting and dual role, audit committee meeting. (Farooque, Buachoom and Sun, 2020)

A significant association between performance and corporate governance was identified in the case of the independence of the members in the board structure for 180 companies from Malaysia (Mohamad et al., 2020). For the analysis of the link between corporate governance and firm performance, ROA and Tobin'q were considered for performance measurement.

The significant positive relationship between company's performance and corporate governance was demonstrated in case of listed companies in Malaysia by Bhatt (Bhatt and Bhatt, 2017).

The relationship between board independence and ROA is negatively insignificant for listed banks in Nigeria (Mustapha et al., 2020).

Liu (2011) considers that 65% of the board structure must be independent members.

Board independence does not affect the performance of companies in Bangladesh, but the impact is positive for companies from Singapore (Mamun, 2016). The performance was measured by ROA and ROE indicators.

The performance of 45 listed companies from China is accelerated by the governance structure of firms with independent director, institutional investors, female directors and audit committee (Peizi, 2020).

The way in which the human resource is trained should consider the innate abilities of each individual. The strong use of human resources avoids the waste of a contribution that could make the difference between failure and success (Nicolae, 2017).

Research methodology

In order to carry out the research, the Romanian banking entities mentioned on the National Bank of Romania site were considered. All 24 commercial banks available at <https://www.bnro.ro/Banci-comerciale-1333.aspx> have been selected.

The necessary data about each entity were extracted from the websites of the entities concerned, more precisely from The Annual Financial Statements and Reports on the requirements of publication and transparency, with information related to 2018.

The extracted information refers to:

- The earned income
- The net result of the financial exercise
- The existence of independent members in the management structure
- The type of administration (monist or dualist)

The data were grouped according to the classification criteria imposed by the specific objectives of each problem. Based on the data processing, conclusions were established.

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
- the results were centralized
- the results were analyzed and interpreted
- the conclusions were drawn.

We issued the following hypotheses:

H1 Banking entities with independent members have a higher rate of return.

H2 Banking entities with dualist management system have a higher rate of return.

Considering the financial results of the Romanian banking entities from the financial statements for the year 2018, we calculated the profitability of the revenues based on the following relation:

$$R(\%) = P / V_t * 100 \quad (1)$$

where:

R - the profitability of the revenues

P - the net result of financial exercise

V_t -total income

We defined the following test function:

$$F_4(ts_4) = \{ f(\delta_1, \delta_2, \delta_3, \delta_4) \mid 0 \leq f_4(ts_{4i}) \leq 4, \\ \delta_1, \delta_2, \delta_3, \delta_4 \in [0;1], \\ i \in [0;24], \\ F_{4i}(ts_{4i}) = (f(\delta_{1i}) + f(\delta_{2i}) + f(\delta_{3i}) + f(\delta_{4i})) \quad (2)$$

where:

δ_1 - the estimated value of the parameter checking on the condition that there is an independent member in management system

δ_2 - the estimated value of the parameter checking on the condition that the bank entity has a dualist management system.

δ_3 - the estimated value of the parameter checking on the condition that the bank entity has in 2018 a positive rate of return

δ_4 - the estimated value of the parameter checking on the condition that the bank entity has in 2018 a rate of return on growth compared to the previous year.

For each bank, the score was calculated according to the above function. The results were centralized and interpreted.

Results of the study

The entities were named B01, B02...B24.

For the banking entities subjected to the study, the following scores were obtained for the created function F (fig. no.1):

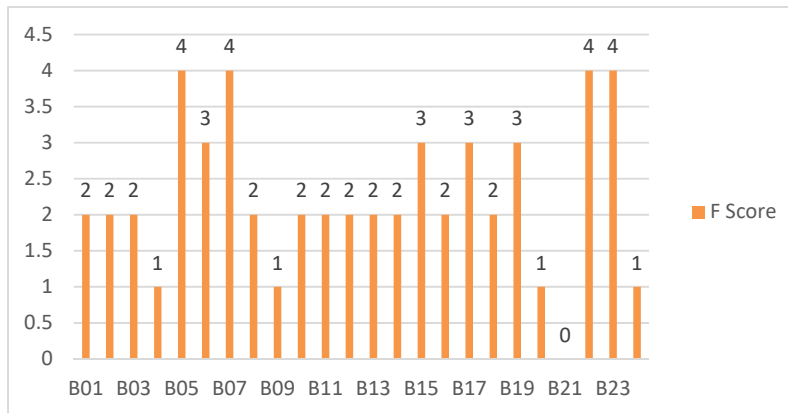


Fig. no. 1 F Scores obtained by the bank entities
 Source: Authors' own calculation, based on data extracted

It can be observed that there are only 4 entities (B5, B7, B 22, B23) that have fulfilled all 4 conditions, obtaining maximum value for the created function.
 A single bank (B21) does not meet any of the criteria, which means it has not achieved a positive result (profit) in 2018.
 The rate of return is calculated for each entity (Table no 1).

Table no. 1 The rate of return

Bank entity	The net result of the year	Total income 2018 (RON)	Rate of return %
B01	21,043,000	580,848,000	3.62%
B02	-9,170,394	734,612	-1248.33%
B03	190,420	25,385,388	0.75%
B04	23,467,550	190,332,801	12.33%
B05	970,447,000	3,082,263,000	31.48%
B06	113,500,000	177,400,000	63.98%
B07	37,501,000	231,478,000	16.20%
B08	1,219,391,000	3,593,980,000	33.93%
B09	15,317,000	56,701,000	27.01%
B10	1,545,989,000	2,980,916,000	51.86%
B11	354,598,000	1,147,152,000	30.91%
B12	-14,718,083	48,630,274	-30.27%
B13	53,009,000	209,432,000	25.31%
B14	11,863,000	428,742,000	2.77%
B15	8,356,909	92,100,000	9.07%
B16	95,759,480	262,279,197	36.51%
B17	10,501,223	109,910,000	9.55%
B18	2,567,417	15,824,081	16.22%
B19	26,200,000	470,700,000	5.57%
B20	-266,000	160,003,000	-0.17%
B21	-5,241,316	63,527,898	-8.25%

B22	906,020,000	2,545,431,000	35.59%
B23	550,799,000	1,581,149,000	34.84%
B24	-39,110,000	443,312,000	-8.82%

Source: Authors' own calculation, based on data extracted

The rates of return are represented graphically below (fig. no. 2):

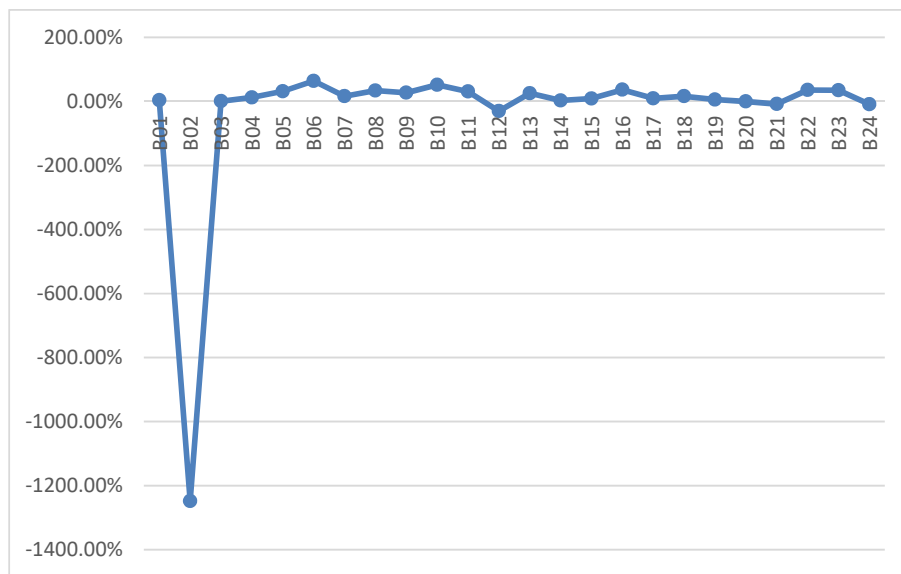


Fig. no. 2 Rates of return (percentage)

Source: Authors' own calculation, based on data extracted

5 banks in the sample do not make profit in 2018, 19 bank entities have a positive rate of return. B02 had very high expenses compared to the revenues obtained in 2018.

Regarding the independence of the members and the type of management system, the data are centralized below. (Table no.2.)

Table no. 2 Independence and Type of management system

Entity	Independent member	Management System
B01	Yes	Unitary
B02	Yes	Dualist
B03	Yes	Unitary
B04	No	Unitary
B05	Yes	Dualist
B06	Yes	Unitary
B07	Yes	Dualist
B08	Yes	Unitary
B09	No	Unitary
B10	Yes	Unitary
B11	No	Unitary
B12	Yes	Unitary

B13	No	Unitary
B14	Yes	Unitary
B15	Yes	Unitary
B16	No	Unitary
B17	Yes	Unitary
B18	No	Unitary
B19	Yes	Dualist
B20	Yes	Unitary
B21	No	Unitary
B22	Yes	Dualist
B23	Yes	Dualist
B24	Yes	Unitary

Source: Authors' own calculation, based on data extracted

We grouped the entities according to the type of administration and the rate of return obtained (Table no.3).

Table no. 3 Number of entities with positive rate of return

Management System	R>0	R<0
Unitary	14	4
Dualist	5	1

Source: Authors' own calculation, based on data extracted

The unitary management system predominates (75% of entities), and 79% of entities recorded a positive rate of return in 2018. The only entity with dualist system and with negative profitability is B02 (even if it has independent members).

Most banks (17 of them) have independent members. (Table no. 4).

Table no. 4 Number of entities with independent members

Management system	With independent members	Without independent members
Unitary	12	2
Dualist	5	0

Source: Authors' own calculation, based on data extracted

In order to visualize the characteristics of the banks that obtain profitability, we have represented them graphically in descending order of the obtained rate of return (fig. no. 3).

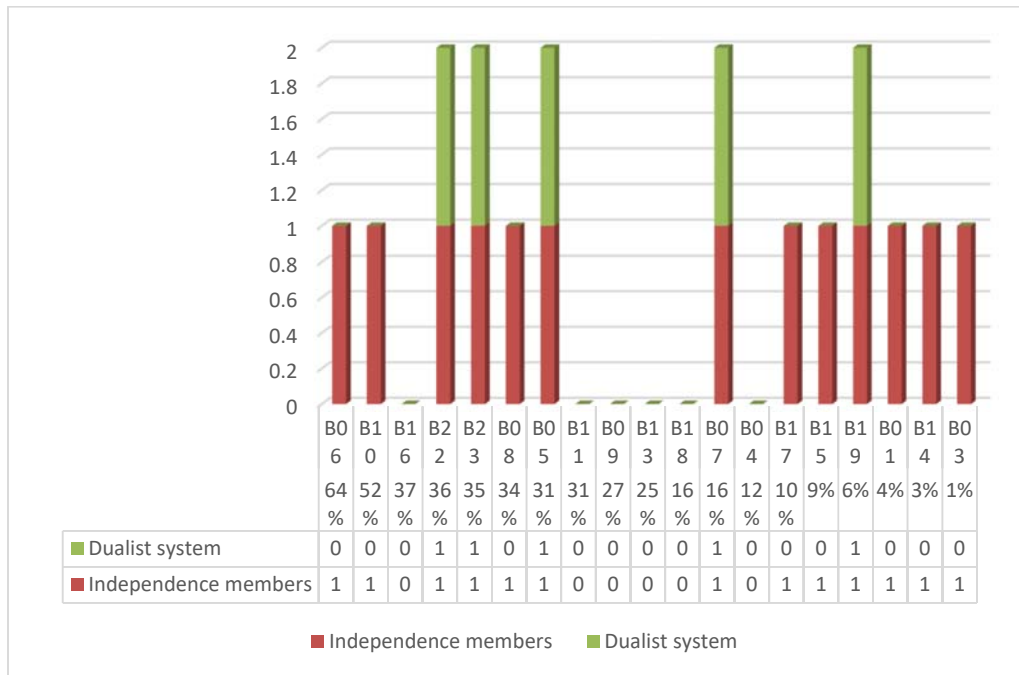


Fig. no. 3 Ranking of profitability rate

Source: Authors' own calculation, based on data extracted

In order of profitability, the first two entities apply a unitary system, but they have independent members. The third ranked bank has a unitary system and no independent member. 5 entities with dualist system and independent members are ranked 4, 5, 7, 12, 16 out of 19 entities with positive rate of return.

Hypothesis H1 Banking entities with independent members have a higher rate of return

Analyzing the financial data, it can be seen that 13 of 16 banks with independent members (which means 81% of them) registered a positive rentability. The first banks classified according to the size of the rate of return have independent members.

Hypothesis H1 can be confirmed for 81% of banks. The existence of independent members is not directly related to the positive profitability for all banks subject to the present study.

Hypothesis H2 Banking entities with dualist management system have a higher rate of return

5 out of 6 banking entities that apply the dualist system (this means 83% of them) have a positive rate of return. The entities with dualist system are not in the first 3 places in the hierarchy of rates of return. Positive profitability is assured for 83% of all banks subject to the study applying the dualist management system.

Conclusions

The results of the study show that 16 of the 24 banks have independent members. 6 banks have a dualist management system and independent members, and 5 of them have a positive rate of return.

18 banks have a unitary management system and 11 of them have independent members. 7 of them have a positive return. It turns out that most banks that have a dual management system and independent members have a higher rate of return. The dual management system is implemented at a small number of banks in Romania.

References

- Al Farooque, O., Buachoom, W. and Sun, L., 2020. Board, audit committee, ownership and financial performance-emerging trends from Thailand. *Pacific Accounting Review*, 3291, pp.54-81.
- Bhatt, P.R. and Bhatt, R.R., 2017. Corporate governance and firm performance in Malaysia. *Corporate Governance: The International Journal of Business in Society*, 17(5), pp.896-912
- Brown, L.D. and Caylor, M.L., 2004. *Corporate Governance and Firm Performance*. [SSRN Scholarly Paper] Rochester, NY: Social Science Research Network. Available at: <<https://papers.ssrn.com/abstract=586423>> [Accessed 20 Apr. 2020].
- Harkin, S.M., Mare, D.S. and Crook, J.N., 2020. Independence in bank governance structure: Empirical evidence of effects on bank risk and performance. *Research in International Business and Finance*, 52, Article Number: 101177.
- Jensen, M.C., 2001. *Value Maximization, Stakeholder Theory, and the Corporate Objective Function*. [SSRN Scholarly Paper] Rochester, NY: Social Science Research Network. Available at: <<https://papers.ssrn.com/abstract=220671>> [Accessed 20 Apr. 2020].
- Liu, W., 2011. *Board Independence and Long-Term Firm Performance: The Initial Quest of Effective Board Paradigm - A Survey Based on Nonlinear Regression Equation Modeling*. [SSRN Scholarly Paper] Rochester, NY: Social Science Research Network. Available at: <<https://papers.ssrn.com/abstract=2034532>> [Accessed 20 Apr. 2020].
- Mamun, P., Noor, M.F. and Musa, S., 2016. *The Impact of Internal Corporate Governance on Firm Performance: Empirical Evidence from Bangladesh, Malaysia & Singapore*. [SSRN Scholarly Paper] Rochester, NY: Social Science Research Network. Available at: <<https://papers.ssrn.com/abstract=3049580>> [Accessed 20 Apr. 2020].
- Mohamad, S., Pantamee, A.A., Keong, O.C. and Garrett, K.W.C., 2020. Corporate governance and firm performance: evidence from listed malaysian firms. *International Journal of Psychosocial Rehabilitation*, 24(2), pp.3668-3678.
- Mustapha, U.A., Rashid, N., Bala, H. and Musa, H. 2020. Corporate governance and financial performance of Nigeria listed banks. *Journal of Advanced Research in Dynamical and Control Systems*, 12(1), pp.5-10.
- Nicolae, S. 2017. Talent as an economic good. *The 29th International Business Information Management Association Conference*. Viena, Austria, 3-4 May 2017.
- PeiZhi, W. and Ramzan, M., 2020. Do corporate governance structure and capital structure matter for the performance of the firms? An empirical testing with the contemplation of outliers. *PLOS ONE*, 15(2), Article Number: e0229157.