
Positive Analysis About Financial Performance And Environmental Strategies Of Banks. Romania's Situation

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*Financial performance represents a subject for researchers especially by its determinants. The analysis of banks is not such complex as economic operators' analysis, in the most of cases the focal point being stakeholders, regulating and monitoring activities, performance indicators and so on. By taking those researches as a base and keeping in mind the differences regarding financial analysis and its affecting agents, the objective is **to investigate Romanian practices about financial performance, paying attention to its affecting agents or factors, green costs and necessary regulation changes in order to get an accurate picture.***

Keywords: *financial performance, management, tax system, banks, environment strategies*

Introduction

This study is to reach few key elements necessary for financial performance analysis of Romanian banks, in a realistic manner. Also, the study tries to keep track of pertinent affecting agents, essential indicators and demanded regulation changes, necessary to get a realistic picture of financial performance.

Also, by taking the researches' concerning environmental strategies as a base and keeping in mind the different perspective of those, the investigation of Romanian banks about implementing the environmental strategies it was a necessity.

Research methodology

Study structuring methodology about evaluation practices of micro level by estimation technique.

Paul Miller (1977) has classified scientific research in this manner:

- *Basic research* to know the limits of research in order to determine the basic principles capable to explain but not necessary to be applicable into practice;

- *Applied research* to make out a guide of practical solutions for identified problems;

- *Practical research* combining previous two types into practice but not necessary for this to bring any progress in studied field.

The current study is an *applied research by statistic survey technique* using a questionnaire addressed to accountants, management and audit professionals.

According to questionnaire answers and other means of investigation, the professionals, as micro-economic level representatives, expressed their perception about financial performance, green costs impact, the payment system necessary to maximize performance, essential indicators for financial analysis and regulation impact. The most eloquent aspects of research methodology are as following below:

Population

Financial performance is a concept used by any entity and accountants, management or audit professional. It was noticed that the banks, regulating authorities and professionals have a different approach of financial performance concept, especially in mandatorily financial performance assessment, meaning that its components are under the circumstances of prudence concept and financial year independence principle. These are the reasons why population under survey consists of regulating authorities and banks staff, expert-accountants signing financial situations, licensed-accountants, financial auditors, managing board staff and managers.

In order to extract a representative, it was paid attention to idea of financial performance based on information provided by account department; therefore the most eligible persons are accountants, financial experts and auditors. Because of different perceptions among specialists working in

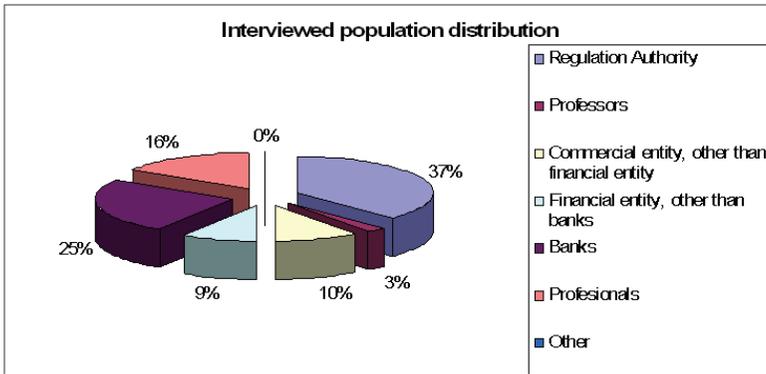
the same bank but also other authorities interested in banks monitoring, it was considered as a demand other responsible persons (administrators, shareholders) to be representative, too.

Extracting representative

The survey base consists of regulating and supervision authorities, public finance ministry and banks representatives.

The field survey including bistadial survey methods comprised a sample of 80 persons, with 95% confidence and $\pm 7\%$ error. The structure of representative is shown in 3.1. figure.

Interviewed



Questionnaire work out

It was intended to build a questionnaire based on simple, concise, easy understandable questions, without misunderstandings, focused on respondent's experience and knowledge. It was not intended to use overwrought questions, helping respondent not to be misguided.

It was intended to use for questionnaire structure a various range of questions regarding financial performance issue as introductory questions, transit questions, filter questions, splited questions, control questions, identification questions, so on.

Taking into consideration questionnaire technicality, it was intended to use a short number of questions that do not to put respondent into difficulty and take him / her a lot of time to answer, therefore avoiding a short number of respondents.

Data collection

The research took place during three month period between April –

July 2012.

The questionnaires were delivered both personally and by e-mail, in order to be questioned the whole country professionals, not only regional ones.

The filled questionnaires were passed back by e-mail or mail or personally.

During the research a special attention was paid to make favorable conditions for respondents in order to maximize participation: phone calls and e-mails to selected respondents asking them to fill and pass back the questionnaires. Accordingly, 80 persons from a total of 130 answered to questionnaires, meaning 62,5% of interviewed persons.

Data processing and analyzing.

Data processing gets through the following consecutively stages:

- Data inputs and validation on working stations;
- Automatic control and errors list generation;
- Making corrections and automatic control re-run;
- Data processing.

Data analysis was made on objectives survey basis, the main goal being to get a picture of surveyed population behavior, as real and complex as possible.

Objectives analysis was a global one, but also in correlation with other statistic variables using techniques and analyzing methods characteristic of gallup poll.

Data analyzing used proper methods of presentation and analysis (tables, graphics, proportions, correlations, trust intervals, gradates, scaling, so on)

Data interpretation

The questions, the answers to questionnaires and conclusions after data interpretation, by groups are as following bellow.

Impact agents for financial performance.

During survey, elements/situations influencing financial performances (internal agents – management, staff, etc; external agents – valuation by estimation techniques demanded by laws – like depreciation, provisions, fair value, useful economic life of fixed assets, etc.) were emphasized.

Question no. 1:

On a scale from 1 to 4 (1 - no impact, 2 - minimal impact, 3 - medium impact, 4 - major impact) estimate which of the next internal agents have impact over financial performance:

Answers to question no. 1

Table no. 1

	Affecting agents	1	2	3	4	Total 80
A	Property	8	17	43	12	80
B	Management	0	6	10	64	80
C	Staff	0	19	33	17	80
D	Strategy					
E	Presence on the stock exchange	12	14	29	25	80
F	Interest margin	64	13	3	0	80
G	Loans portfolio	0	0	42	38	80
H	Other	18	26	19	17	80

(Source: authors)

It has been noticed the most of respondents pointed property, management, loans portfolio and presence on stock exchange as determinants. Regarding management, respondents estimated strategic management as an important issue to achieve medium and long term objectives. This is the reason not even one respondent pointed strategy as determinant, management and strategy being inseparable but generating strategic management. About staff impact, superior financial performance can be achieved by a proper psychologic environment, personnel being motivated by well-balanced working environment.

Presence on stock exchange was also pointed as determinant, this presence being quantified as credibility with direct influence on investments.

It is a notable fact the respondents consider an agency disposing of latest technology infrastructure can achieve superior financial performance.

A notable remark resides in pointing management and presence of stock exchange as determinant by respondents working in banks and regulating authorities. Only few of respondents pointed interest margin as determinant,

despite of major differences between Romanian banks and other European banks regarding interest margins. Concluding, a higher profitability does not necessary reflect a higher financial performance.

Question no. 2

On a scale from 1 to 4 (1 - no impact, 2 - minimal impact, 3 - medium impact, 4 - major impact) estimate which of the next external agents have impact over financial performance:

Answers to question no. 2

Table no. 2

	External facts	1	2	3	4	Total (%)
a.	Regulation constraints	30	12	21	17	80
b.	Supervision	17	9	13	41	80
c.	Economic environment	0	0	0	80	80
d.	Inflation	0	0	33	47	80
e.	Taxation	5	16	51	8	80
f.	The structure of financial system	10	16	43	11	80
g.	Other	5	22	25	28	80

(Source: authors)

The objective of this question is to determine which of the external factors can influence the financial performance. The economic environment is pointed as determinant of financial performance, closely followed by the inflation. A surprise is the presence among determinants taxes system, which leads us to think that the desire to separate tax accounting is declarative, accounting performance seems to be affected by the size of taxes. Personally, we expect that this indicator registered a small influence, because we were looking at accounting financial performance, not on the accounting financial performance adjusted with the taxation.

The regulation constraints, especially whose refers to prudential regulation and mitigate credit risk, are pointed as determinants of financial performance. While credit institutions consider that regulation (both accounting and supervision) and financial performance are negatively related, the accounting and supervision authority consider it as beneficial in achieving

financial performance on sound and prudent basis.

However, we find that there is a growing concern regarding political influences, the majority of respondents saying that the decision of the regulatory and supervision authorities to adopt a particular accounting framework – whose rules are positively related to the financial performance - is determined by both agreements with national and international bodies and conflicts within political class.

Financial system structure was indicated as a determinant of financial performance by 68,5% of the interviewed persons (most of them form credit institutions and regulation authorities) considering that well balanced financial system can generate reliable and continuous financial performance, against 32,5% (most of them form professions) who believes that a entity may be powerful only based on its management.

As a conclusion it can be said there is no common point of view about affecting agents, but professionals, including those working in the financial sector, considers taxes as a determinant, highlighting the difficulty of accounting and taxes separation.

Next, we proceeded to request the opinion regarding management remuneration, as an effort to optimize management and shareholders interests seen through the agent theory.

Question no. 3:

Which of management remuneration forms do you estimate as beneficial to maximize financial performance? (use a 1 to 4 scale)

Answers to question no. 3

Table no. 3

Remuneration forms	(%)
Standard benefits	18,5 %
Standard benefits and shares or stock options	34,5 %
Standard benefits and bonuses related to profit rate	21,75%
Standard benefits and bonuses related to shares price	25,25%
Standard benefits and bonuses related to market share	0%

Total	100.00%
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(Source: authors)

None of respondents chose standard benefits and bonuses related to market share as a beneficial remuneration form, maybe because of diversified methods to determine market share, consequently a lower possibility of remuneration control.

The most of respondents pointed standard benefits and shares or stock options as a beneficial management remuneration form, in correlation with internal interests of company and shareholders interests.

Furthermore, respondents working in banks disagreed correlation of benefits with shareholders objectives fulfill, but agreed with internal ones. Regulating authorities' representatives have divided appreciations, ones taking into consideration a standard benefits package that reduces risks of management involvement into speculative actions, against the others appreciating a standard benefits and bonuses package, related to shares price and objectives fulfill.

Question no. 4

Regarding the accounting framework are you agree with the conformity with the European Directives or IFRS?

Answers to question no. 4

Table no. 4

	Accounting regulation	Yes	No	Total
A	Accounting regulation according to European Directives	26	54	80
B	Accounting regulation according to with IFRS	54	26	80

(Source: authors)

Most respondents (70%) believes that should be applied the accounting regulation conform to IFRS for all entities, the remaining 30% choosing for an accounting regulation in line with the European Directives. It is important to note that both credit institution and Regulation Authorities representatives chose IFRS, considering that they are closer to the economic reality. Auditors

also agreed previous opinion and a part of accounting profession chose European Directives because they are easier and more simplistic compared with IFRS.

Question no. 5

Do you consider financial situations according to IFRS is complete enough to determine financial performance?

Answers to question no. 5

Table no. 5

		Yes	No	Total (%)
	IFRS financial situations are complete enough?	76.48	23.52	100.00

(Source: authors)

76 % of respondents agreed financial situations drawn-up according to IFRS principles are complete enough in order to determine financial performance. The others 24 % argue IFRS principles bases on estimations and professional judgments, giving way to subjectiveness.

Trust in individual financial situations drawn-up according to IFRS principles.

The question purpose is to determine the degree of confidence in IFRS reports and identify the elements generating mistrust in its.

Question no.6

Regarding quality, transparency and relevance of financial situations drawn-up according to IFRS principles:

a) Are financial situations drawn-up according to IFRS principles transparent enough and very relevant for financial performance evaluation?

b) Which of the elements below do you consider can be manipulated?

Answers to question no. 6b

Table no. 6b

	Elements	Yes	No	Total
a.	Professional judgment	85%	15%	100%
b.	Accounting politics	88,75%	11,25%	100%
c.	Fair value	55%	45%	100%
d.	Estimations	92,5%	7,5%	100%
e.	Others	2%	98%	100%

(Source: authors)

Regarding the question 6a) about thrust in financial situations down-up according to IFRS principles, 83 % of respondents expressed their thrust only if auditors are not Romanian, while 17 % took into consideration the risk of wrong application of IFRS principles, generated by its complexity.

Regarding financial situations credibility, the most of respondents estimated that professional judgment; accounting politics and estimations are able to change substantially an entity picture. About fair value, 55 % of respondents estimate the fair value is a realistic value of an asset, without possibility of being manipulated, while the other 45 % considered an asset value depends on evaluating person, making room for subjectiveness.

Financial performance evaluation indicators

The questionnaire let respondents to freely decide the indicators of financial performance evaluation, specifying that indicators hierarchy reflects each indicator importance according to respondents' appreciation.

Adjacent to dedicated indicators, many others as economic growth, cash-flow, dividends politics, litigations number, penalties paid were also indicated as financial performance evaluation indicators. The profit and cash-flow were mentioned by each respondent as important indicators.

Useful information for financial performance evaluation

Question no.7

Do you consider that prudential demands determine a superior performance of banks? In case of affirmative answer specify prudential indicators could be published.

Answers to question no. 7

It is a known fact that banks activities are monitored by national

monitoring authorities but also by international authorities, the primary goal being market stability.

Ones of survey objectives were to get professionals opinion regarding the importance of prudential indicators in banks performance evaluation and determine if prudential regulation could be a support factor for financial performance.

A percent of 68,75 % of respondents appreciated prudential regulation does not necessary determines superior financial performances, only brings discipline among banks, while 26,25 % considered that prudential regulation generates costs for banks.

Question no. 8

Have you any interest in green accounting?

Answers to question no. 8

As it was expected, the green accounting is not a primary goal for banks, pollution index in services sector being more reduced relative to production sector, banks activity having no visible effects over environment and accordingly no actions necessary to be carried out in order to prevent possible incidents. Furthermore, a green accounting able to anticipate and monitor the green costs and generate green reports very similar to financial situations is far away enough. Similar points of view have the other professionals, too.

Question no. 9

Do you consider environment protection information is necessary to be distinctively represented within financial situation?

Answers to question no. 9

The most of respondents appreciated a distinctive environment protection representation within financial situation is useless because of minimal costs (around 3 % of total costs). In addition, the diversity within this class of expenses is reduced, preponderant being energy costs and air pollution taxes.

Question no. 10

Respondents were asked to evaluate on an 8 points scale (0 – no implementation, 7 – strategy implemented) the degree of the environment strategies implementation.

Answers to question no. 10

The most common environmental strategy in banks is about use waste paper collection. Also, banks are involved in funding green building commercial projects and have the expertise and tools to help fund green projects as: alternative energy, local agri-business, local fishing industry, etc. In order to protect the environment, banks offers discounts to costumers who pay without paper (includes debit card transactions, paying bills online, etc.).

Question no. 11

Which are the elements you would change in present regulation in order to achieve most realistic picture of financial performance?

Answers to question no. 11

This question was the most controverted and together with financial performance definition recorded the biggest number of different answers. In order to facilitate data analysis, the answers were grouped in 5 categories by their common characteristics. Therefore, 11,25% of respondents expressed about necessity for a complete change of regulations due to possible altered economic reality of a bank as a result of more frequently use of estimations and professional judgment. On the other hand, 15 % of respondents appreciates actual regulation as well-balanced, but mentioned the necessity of a set of guide lines in order to specify the situations when professionals' judgment is allowed to be used.

Another cathegory (28,75 %) appreciates the present regulations should limit fair value valuation because fair value can be determined only in the moment of transaction.

Another group (27,5 %) identified orientation to the past of financial situations demanded by accounting regulations as a problem and lack of prospective information diminish the confidence in financial situations.

The last group of respondents (17,5 %) appreciates the whole international accounting framework as a complete and complex one and confidence in financial reporting is determined by a good-will use of accounting principles.

Limits of current study and research perspectives

Of course, our study is far from being perfect, that's why we have to be fully aware and to admit there are some limits; the value of this paper is argued by its possibilities to be considered as a good starting point that can stimulate

further researches on Romanian perspective on financial performance, tax system and environmental strategies.

The survey results were very helpful in our research because it permits to evaluate on a proper manner, the regulatory authorities, credit institutions and professional perception on financial performance and tax system as a determinant; although it shows that environmental strategies are not unknown for banks. However, the study has identified difficulties in evaluating financial performance due to: different perception of management and ownership; estimation techniques used; professional judgment; the manner of determining fair value, etc.

As a summary, below is presented working hypothesis formulated and tested.

Summary of working hypotheses

Nr. crt.	Working hypotheses	Tested (Assumed / Rejected)
1.	The most common interpretation of financial performance is profit, although the profit is only a result of financial performance	Rejected
2.	The management' actions determine financial performance	Assumed
3.	Property is a determinant of financial performance	Rejected
4.	Interest margin is a financial performance determinant for banks operating in Romania	Rejected
5.	Taxes has no impact on financial performance	Rejected
6.	Economic environment is a determinant of financial performance	Assumed
7.	The regulation constraints perturbs financial performance	Rejected
8.	Standard benefits and shares was indicated as the most proper management' remuneration form	Assumed
9.	The international accounting framework is considered the accounting practice	Assumed
10.	Fair value is an accurate value	Rejected
11.	Financial performance is valuate mainly using financial rates	Rejected

12.	Most of financial institutions considers that prudential indicators should not be published	Assumed
13.	The credit institutions are not implementing environmental strategies	Rejected

(Source: authors)

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