THE IMPORTANCE OF CORPORATE GOVERNANCE IN BANKING. EVIDENCE FROM THE BANKS LISTED AT BUCHAREST STOCK EXCHANGE

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Abstract: *In the context of the financial market volatility and economic competitiveness, corporate governance has become an imperative for improving organizational performance and a strategic instrument for enhancing credibility of stakeholders in companies and institutions. Evidence show that at present, banks continue to have a governance problem, which poses significant risks not just to them, but potentially to the entire economy (Forth, 2012). Corporate governance is essentially important for banks, because such institutions: (a) deal with funds raised from the public; (b) are likely to encounter greater risks including frauds and failure; and (c) if such frauds or failures occur in such institutions, it may pose issues relating to public confidence in the financial system stability itself (Cabraal, 2007, p.3). The purpose of our empitical study is to analyze the corporate governance framework of the banks listed at Bucharest Stock Exchange, in terms of: principles and practices of corporate governance, ownership and board structure, financial reporting, disclosure and transparency of information, business ethics and corporate social responsability. In this regard, we will use a quantitative approach, based upon the Annual Reports from the banks listed at Bucharest Stock Exhange indexed BET-XT. Results of the data regression analysis indicate that efficient corporate governance mechanisms have a positive impact on the financial performance and stock market valuation of the banks listed at Bucharest Stock Exchange. The analysis on financial performance on banks in terms of ROA, ROE and PER, indicates that the price share of Transilvania Bank is the most attractive for investors, with great potential of profit on a long term.*

Keywords: *corporate governance; organisational performance; market valuation; banking; Romania.*

Introduction

For the banking system, in order to obtain competitive advantage in the context of the global financial market volatility, the legal and economic instability, corporate governance represents an imperative and a strategic instrument for a sustainable financial growth. This paper aims to analyze, through a quantitative approach, the key corporate governance mechanisms implemented by the banks listed at Bucharest Stock Exchange (in terms of financial disclosures, non-financial disclosures, annual general meetings, timing and means of disclosure, and best practices for compliance with corporate disclosure) and the relationship between corporate governance and the financial performance of banks. Our grid of analysis comprises 44 items and is based upon the financial, corporate governance and disclosure indicators elaborated by Uwuigbe (2011). The results of our study are in line with other studies concerning the features of corporate governance, the need for a mandatory legal framework in Romania on this topic and a better disclosure of the information regarding the financial situation and the remuneration of management (Albu, Durica, Grigore, Grigoraș, Mateescu, & Ichim, 2013; Firescu & Brânză, 2013; Tofan, Bercu & Cigu, 2015; Țarțavulea, 2014). The data regression analysis results indicates that efficient corporate governance mechanisms have a positive impact on the financial performance and stock market valuation of the banks listed at Bucharest Stock Exchange. Also, the analysis on financial performance on banks in terms of ROA, ROE and PER, indicates that the price share of Transilvania Bank is the most attractive for investors, with great potential of profit on a long term.

Corporate Governance: An overview

Corporate governance represents a topic of interest not only for the corporations from the public and private sector, but for policy makers, the civil society and academicians alike. The financial scandals that corporations are facing, but also the volatility of the global market and economic uncertainty, indicate the fact that it is necessary to reconsider the importance of corporate governance: first, as an imperative to increase organizational performance; second, as a strategic instrument to increase corporate credibility to the shareholders and stakeholders. Corporate governance is concerned with: on the one hand, with the aspects of the internal administration of a company, namely, a set of norms, principles and rules for controlling and monitoring the organizational activities; on the other hand, is focused on issues related to the development of a partnership relationship based on trust between the organisation and its stakeholders, in response to the societal normes and pressures in regard to the adoption of ethical, accountability and transparency on behalf of the corporations (Vagneur, 2011, p.2).

Corporate governance is correlated with the responsibility of the board of directors to enhance corporate performance through strategic decisions in order to obtain competitive advantage: „Corporate governance is the system by which companies are directed and controlled" (Cadbury Committee, 1992, p.10). The role of the board of directors is to establish strategic objectives and supervising the executive board activity, by taking into account the financial interests of the shareholders. At this point, in the context of the increasing economic competitiveness in different markets and industries, in terms of meeting the board of directors responsabilities, there have been imposed new standards for organisational performance evaluation. Thus, corporate governance involves not only accountability, but also different mechanisms to create shareholder value through strategic decisions (Clarke & Branson, 2012). Nevertheless, the behaviour and responsabilities of the board of directors should not be limited only to the maximization of the shareholders interests and adoption of effective mechanisms for controlling and administration of the corporation, in order to achieve the strategic objectives. Van Ees and Gabrielsson (2009) point out to the fact that corporate governance employs not only strategy, evaluation and control, but it also ensures the continous flow of information and know how within the organisation (between the board of directors and employees) and it also facilitates the cooperation between management and stakeholder, in order to solve the organisational problems.

According to the Organization for Economic Cooperation and Development (2004), „corporate governance involves the distribution of rights and responsabilities among the different participants in the organisation such as the board, managers, shareholders and other stakeholders and lays down the rules and procedures for decision-making. From this perspective, corporate governance is regarded primarily as a strategic instrument for increasing organizational performance and gaining the trust of investors, creditors, suppliers, distributors and, at the same time, it represents an important link between the corporation and other stakeholders (employees, civil society, customers/consumers etc.). This implies on behalf of the corporation to pursue a policy of transparency and ethical behaviour in bussiness correlated with the adoption of a formalized set of procedures and processes that will ultimately increase the fiancial value of the company.

In accordance with Fahi, Weiner & Roche (2005), corporate governance comprises three distinct dimensions: performance, conformance and corporate responsibility. The performance dimensionis concerned with the processes and managerial procedures adopted at an organisational level, used as means for creating value for the shareholders. In the long term, performance management represents an important instrument for obtaining competitive advantage and implies planning, strategy and business intelligence. In the first place, this entails that the strategic decisions adopted by management to be translated into operational and measurable objectives so that the optimization of the processes to be achieved at all levels of the corporation. Corporate performance management entails: 1) new systems of management, such as Balance Scorecard – tool used in strategic planning, focused on the following indicators of organizational performance: financial, customers, internal processes, people, innovation and learning (Kaplan & Norton, 2001); market segmentation; customer satisfaction analysis; Supply Chain Management (SCM); strategic decisions for etablishing pricing for products and services; creating the budget (Fahi et al., 2005, p.61).

The second dimension of corporate governance – Conformance – defines the legal framework, principles and standards adopted by management for minimizing the risks concerning organisational activities of monitoring and evaluation. As a result of the technological development, economic pressures, increasing economic competitiveness and shareholders requirements, the financial function of corporations plays a crucial role in implementing change management at the level of transactional processes, shareholder relationship management and business process outsourcing. Thus, corporate governance adresses the following issues: risk management and internal control; management and accountability; the framework of the board of directors; monitoring and evaluation of organisational activities (Fahi et al., 2005, pp.5-6).

Corporate responsability dimension of corporate governance refers to the practices and policies employed by corporations to promote ehical and responsible behaviour in relation to civil society, in order to obtain a positive reputation. In the current context, implementing corporate social responsability programs representss a necessity for achieving business objectivess. Corporate social responsability programs have a major impact, not only on the capital image in terms of consolidating the relationship with the society, but primarily in terms of attracting capital from investors. Corporations have understood the fact that for achieving competitive advantage in the global market and for creating financial value, it is imperative to adopt an ethical behaviour, based on transparency and sustainable development. Moreover, recent research in the field indicates that investors choose to provide capital to companies that enjoy credibility at the societal level that implement corporate social responsability programs (Fahi et al., 2005, pp.7-9).

The importance of corporate governance resides in the fact that: 1) ensures the implementation of performance management systems, managerial control and monitoring systems that protect the capital and assets of the company; 2) it prevents the concentration of power and influence in the hand of a single individual or different groups of influence; 3) ensures the development of relations and effective cooperation between management, board of directors, shareholders and other stakeholders; 4) the company is directed and controlled by taking into account not only the shareholders interests, but also those of the other stakeholders (cusstomers, employees, government, society etc.); 5) it encourages transparency and accountability, given the high interest of investors in providing capital to companies that adopt policies, processes, specific management systems and corporate performance management (Mallin, 2013, p.8).

Corporate governance mechanisms in the banking system

The bank corporate governance framework is very complex and encompasses the banks stakeholders, its managers and other employees, the board of directors, but, unlike non-financial companies, banks further operate under a unique system of public oversight in the form of bank supervisors and a comprehensive body of banking law and regulations (Spong & Sullivan, 2007). Corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how they: set corporate objectives; operate the bank's business on a day-to-day basis; meet the obligation of accountability to their shareholders and take into account the interests of other recognised stakeholders; align corporate activities and behaviour with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and protect the interests of depositors (Bank for International Settlements, 2006).

Monika Marcinkowska (2012, p.48) states that corporate governance in banks differs from the standard (typical for other companies) due to the following issues: 1) banks are subject to special regulations and supervision by state agencies (monitoring activities of the bank are therefore mirrored); supervision of banks is also exercised by the purchasers of securities issued by banks and depositors ("market discipline", "private monitoring"); 2) the bankruptcy of a bank raises social costs, which does not happen in the case of other kinds of entities' collapse; this affects the behavior of other banks and regulators; 3) regulations and measures of safety net substantially change the behavior of owners, managers and customers of the banks; rules can be counterproductive, leading to undesirable behaviour management

(take increased risk) which expose well-being of stakeholders of the bank (in particular the depositors and owners); 4) between the bank and its clients there are fiduciary relationships raising additional relationships and agency costs; 5) problem principal-agent is more complex in banks, among others due to the asymmetry of information not only between owners and managers, but also between owners, borrowers, depositors, managers and supervisors; 6) the number of parties with a stake in an institution's activity complicates the governance of financial institutions.

The World Bank (2014) indicates that the most relevant governance issues for the financial institutions are: 1) charging with upholding the public's trust and protecting depositors. Balance sheets are more opaque, leading to less transparency and greater ability to conceal problems. Good governance requires boards and senior management to fulfill their fiduciary responsibilities by effectively communicating strategic business direction and risk appetite while assuring transparent and effective organization, risk assessment and mitigation, and sufficient capital support; 2) Good governance complements traditional supervision of financial institutions, protects the interests of depositors and other investors in commercial banks, builds and maintains public confidence in the financial sector, and ultimately contributes to its integrity and credibility; 3) Financial institutions are uniquely vulnerable to liquidity shocks which can result in institutional, and potentially, financial instability. Sound governance supports prudential supervision and regulation, enhancing the role and the effectiveness of the financial institution supervisor.

When addresing the issue of corporate governance in the banking system, we must take into consideration the following features: risk management, compensation and rewarding policies and stakeholder control. Luc Laeven and Lev Ratnovski (2014) point out to the fact that the traditional Anglo – Saxon corporate governance mechanisms make banks more efficient, but not necessarily safer. In this case, higher bank capital, better risk management and pay regulation, and some stakeholder control may help steer corporate governance towards financial stability objectives. Hence, corporate governance represents a strategic instrument to ensure strong supervision, risk control in banks improving financial stability. Banks which better implement risk management procedures for internal control may have some advantages: (i) It is in line with obedience function toward the rule; (ii) It increases their reputation and opportunity to attract more wide customers in building their portfolio of fund resources; (iii) It increases their efficiency and profitability (Tandelilin & Kaaro, 2007, p.21). According to Monika Marcinkowska (2012, p.54), weak and ineffective corporate governance mechanisms in banks related to risk management are the main factors that have generated the financial crisis. This is due to the fact that risk management in banking is influenced by the economic status of other players on the market (other banks or financial instituttions). When it comes to effective risk management, the supervisory board has a major role in: 1) monitoring of implementation and adequacy of the operation of the system of risk management); 2) the establishment of strategic objectives, including an acceptable level of risk (Marcinkowska, 2012, p.55). The issue of risk management in the banking system is also strongly correlated with the problem of ownership and control. For example, in the United Kingdom, institutional shareholders have a major influence on the management and board the directors and this type of shareholders do not oppose risk-taking at banks, in contrast with the United States where banks are frequently controlled by blockholders, their attitude to risk-taking being ambiguous (Becht, Bolton & Roell, 2012, p.453).

When it comes to the remuneration and compensation of bank managers we must approach this aspect from a two-fold perspective: on the one hand, the boards of the banks and the shareholders pressure management to generate a high return on equity (which requires banks to generate high profits) and to take excessive risks; and, on the other hand, the fear of loss of human capital or reputation might make managers rewarded with stock grants, less inclined to take risks than ordinary shareholders (Becht et al., 2012, p.446). Studies confirm that high remuneration incentives have determined banks to take more risks during the financial crisis started in 2008 (Cheng, Hong & Scheinkman, 2010; Laeven & Ratnovski, 2014; Mehran & Rosenberg, 2007). In many cases, the correlation between performance and remuneration is difficult to be established by the CEO. For example, the majority of banks use generic indicators to measure the price of the shares detrimental to specific indicators to determine the relative financial performance of the company. Monika Marcinkowska (2014, p.63) outlines the following risk

measures that could serve as key performance indicators in banking remuneration systems: non-performing loans amount, growth or ratio (non-performing loansas a percentage of total gross loans); value at risk (amount or number of times the bank exceeded the limit); liquidity ratios (asset-liability adequacy); leverage ratio (assets to equity or assets and off-balance sheet items toequity); risk-weighted assets and off-balance-sheet liabilities,; capital adequacy (capital ratios: total, tier 1, common equity tier 1); it can also be useful to use risk-adjusted performance measures such as economic capital, economic profit (risk included in the calculation of beta coeficient), risk adjusted profit, return on risk-weighted assets, risk-adjusted return on capital (RAROC) or risk on risk-adjusted capital (RORAC).

The study elaborated by Vitali, Glattfelder & Battiston (2011), in relation to the implications of economic globalization and the financial crisis that began in 2008, revealed the fact thact control of the global financial market is owned by the financial institutions. Thus, a total of 147 corporations from banking and fiancial investment represent the core of the economic global order: Barclays, Goldman Sachs, JPMorgan Chase & Co, Vanguard Group, UBS, Deutsche Bank, Bank of New York Mellon Corp, Morgan Stanley, Bank of America Corp, Société Générale. Currently, the expansion of banks towards conglomerates and the extension of their activities to other economic sectors contribute to the volatility of the financial market, reiterating the idea that are too important for the world economy to be sustained by governments (Mehran, Morrison & Shapiro, 2011).

Methodology

In our research we used content analysis, focusing on identifying the key corporate governance mechanisms implemented by the banks listed at Bucharest Stock Exchange as means for gaining the credibility of individual and institutional investors: Transilvania Bank, BRD Groupe Societe Generale and Carpahian Commercial Bank. Our approach is based upon the Annual Reports in 2015 of the banks listed at Bucharest Stock Exhange indexed BET-XT. BET-XT index reflects the evolution of the prices of the most listed companies on the regulated market of Bucharest Stock Exchange. The methodology of the BET-XT index allows it to be use as an active support for derivative financial instruments (futures, options) and structured products (warrants, certificates, etc.). The content analysis is divided into two basic sections covering both financial performance aspects and the corporate governance aspects. Content analysis is basically used to assess the level of compliance with corporate governance code of conduct in prior studies. Our grid of analysis comprises 44 items and is based upon the financial, corporate governance and disclosure indicators elaborated by Uwuigbe (2011) upon the corporate governance mechanisms and financial performance of the listed firms in Nigeria (see table 1):

Table 1: Indicators of the grid analysis (Adaptation after Uwuigbe, 2011)

CGV1	CGV2	CGV3	CGV4	CGV5	CGV6	CGV7	CGV8	CGV9	CGV10
Financial and operating result	Related party transaction	Critical accountin policies	Corporate reportir framework	Statement of directors' responsibilities with financial	Risk and Estimate in preparing and presenting financi statements	Segment reporting	Information regarding future plan	Dividend	Information about company objectiv
CGV11	CGV12	CGV13	CGV14	CGV15	CGV16	CGV17	CGV18	CGV19	CGV20
Ownership Structure	Shareholders rights	Size of the board	Composition of the board	Division bwtween Chairman and CEO	Chairman's statement	Information about Independent directors	Roles and Function of the Board	Organisationa l Hierarchy	Changes in Board Structure
CGV21	CGV22	CGV23	CGV24	CGV25	CGV26	CGV27	CGV28	CGV29	CGV30
Compliance with different legal rules	Audit Committee	Remunerati on Committee	Statement of CEO	Compositio n of the Committees	Functioning of the Committees	Organisatio nal code of ethics	Biography of board members	Number of directorship held by individual	Number of board meetings
CGV31	CGV32	CGV33	CGV34	CGV35	CGV36	CGV37	CGV38	CGV39	CGV40

Attendance in Board Meetings	Directors' stock ownership	Director's remuneration	Employee relation/ Industrial	CSR	Risk Assessment and Management	Internal Control System	Auditor's Appointment and Rotation	Auditors fees	Notice of the annual general
CGV41	CGV42	CGV43	CGV44						
Agenda of the annual general meeting	Separate section for corporate	Annual Report through Internet	Compliance with BVB Code of CG						

A dichotomous procedure was followed to score each of the disclosure items. Each bank was awarded a score of „1" if it appears to have disclosed the concerned issue and „0" otherwise. For the analysis on the relationship between corporate governance and the financial performance of banks we used data regression analysis. In this regard, we took into consideration the most relevant indicators of financial performance of banks, as they are highlighted by Peters and Bagshaw (2014): ROA (the return on assets), ROE (return on equity) and PER (price earning ratio). In order to achieve the objectives of the study, we tested the following hypothesis:
H1: There is a positive relationship between the quality of corporate governance disclosure and stock market valuation of the banks listed at Bucharest Stock Exchange.

Results and discussion

As earlier mentioned in the methodology section, with the help of the list of disclosure items, we examined the corporate annual reports of the banks. Using a dichotomous procedure, we scored each of the disclosure items as it follows: „1" if it appears to have disclosed the concerned issue and „0" otherwise (Table 2) .

Table 2. Level of Corporate Governance Disclosure of the Listed Banks at Bucharest Stock Exchange

CGD items	**CGD1**	**CGD2**	**CGD3**	**CGD4**	**CGD5**	**CGD6**	**CGD7**	**CGD8**	**CGD9**	**CGD 10**	**CGD 11**	**CGD 12**
Average no of compliant banks	3	2	3	3	3	3	2	3	1	3	3	3
%of compliant banks	100%	66%	100%	100%	100%	100%	66%	100%	33%	100%	100%	100%
CGD items	**CGD13**	**CGD14**	**CGD15**	**CGD16**	**CGD17**	**CGD18**	**CGD19**	**CGD20**	**CGD21**	**CGD 22**	**CGD 23**	**CGD 24**
Average no of compliant banks	3	3	2	2	3	3	3	3	3	3	3	2
%of compliant banks	100%	100%	66%	66%	100%	100%	100%	100%	100%	100%	100%	66%
CGD items	CGD 25	CGD 26	CGD 27	CGD 28	CGD 29	CGD 30	CGD 31	CGD 32	CGD 33	CGD 34	CGD 35	CGD 36
Average no of compliant banks	2	3	3	3	2	3	3	1	0	0	3	0
%of compliant banks	66%	100%	100%	100%	66%	100%	100%	33%	0%	0%	100%	0
CGD items	CGD 37	CGD 38	CGD 39	CGD 40	CGD 41	CGD 42	CGD 43	CGD 44				
Average no of compliant banks	3	2	3	3	3	3	3	3				

%of compliant banks	100%	66%	100%	100%	100%	100%	100%	100%				

The three banks included in our research obtained the following disclosure scores: a) Transilvania Bank resgistered the highest score (88%), being closely followed by BRD Groupe Societe Generale (84%); b) Carpathian Bank registered the lowest score - 79%. Banks with disclosure score 100% provided detailed information on items 1, 3,4, 5,6,8, 10, 11, 12, 13, 14, 17, 18, 19, 20, 21, 22, 23, 26, 27, 28, 30, 31, 35, 37, 39, 40, 41, 42, 43 and 44. Disclosure items 33, 34 and 36 were the least reported items by all of the three banks included in our research.

Transilvania Bank, BRD group Societe Generale and Carpathian Bank offered detailed information in regard to their: anual and semestrial financial and operating results, accounting policies, corporate framework (number of board members and their responsabilities, ownership structure, shareholders rights, division between Chairman and CEO, information about independent directors, composition and functioning of the committees), audit reporting and environmental and social responsibility policies/ programs. Also, all the banks provided detailed information concerning compliance with banking regulation.

All of the three banks don't make a clear statement concerning: 1) *item 33 – Director's remuneration* – despite the fact that the banks employed Compensation and Remuneration Committee as an important component of corporate governance framework, don't present information concerning the salaries of the members of the Council of Administration and the Executive Board; 2) *item 34 - Employee relation/ Industrial relation* – The only information disclosed on this item can be found in financial reports and it concerns the number of employees and the grossed corresponding costs, without any clear policies in regard to employee relations; 3*) item 36 - Risk Assessment and Management* – All of the three banks have a Risk Management Committee – responsible on behalf on the Board with the exposure drive risk exposure and supervisory process monitor capital adequacy. Despite this fact, the banks don't discloses the risk profile of the credit performance.

Items 2,7,15, 16, 24, 25, 29 and 38 were partially disclosed by the banks listed banks at Bucharest Stock Exchange. In this regard, only two banks disclosed full information concerning their party transaction correlated with their future plan of expansion – the expansion of Transilvania Bank in the retail field through the aquisition of Volksbank Romania and the future joint-venture between Carpathian Bank and Nextebank (presentation of the procedures and regulations). Also, only Transilvania Bank and Carpathian Bank have a clear division between Chairman and CEO, offer the members name and proffesional background of the Committees and disclose the number individual directorship.

In order to determine if corporate governance mechanisms can be associated with better financial results, we compared the corporate governance index obtained by the banks listed at BVB (CGV) with the following indicators: EPS (earnings per share), ROE (return on equity) and ROA (return on assets).

Table 3. Corporate Governance Performance Index from Highest to Lowest

Name	CGV	EPS (%)	ROE (%)	ROA (%)	PER (%)
Transilvania Bank (TLV)	88	0.14	16,92%	0,3%	15,22%
BRD Group Societe Generale (BRD)	84	0.06	8,8%	0.06%	166,65%
Carpathian Bank (BCC)	79	-0,05%	-0,1%	-0,05%	23%

Source: Authors" Calculation based on Content Analysis and the financial information provided by Bucharest Stock Exchange (www.bvb.ro).

The results indicate that there is a significant difference between the financial performance of the banks that make the object of our analysis. Transilvania Bank and BRD Group Societe Generale that had the highest CGV (88% and 84%) recorded the highest ROE and ROA scores (Table 3). Detrimental to this results, Carpathian Bank that also scored high on CGV (79%) recorded the lowest ROA and ROE scores:

-0,05%, respectively -0,1%. In terms of price earning ratio (PER), the analysis indicates that the price share of Transilvania Bank is the most attractive for investors, with great potential of profit on a long term. On the other hand, the PER indicator for Carpathian Bank is discouraging, taking into consideration the ROA indicators also, given the fact that it has confronted with state of insolvency, despite the positive signals for investors in regard to joint-venture with Nextebank.

The Pearson Correlation Coefficient analysis indicates a positive relationship between the measures of corporate governance and ROE variable (Table 4). Hence, a comprehensive corporate governance framework and a high level of diclosure on financial reporting, influences the credibility of potential investors/ shareholders and the financial performance in terms of return on equity.

Table 4. Pearson's Correlation Coefficient Analysis

		CGV	ROA	EPS	ROE
CGV	Pearson Correlation	1	,748	1,000*	,999*
	Sig. (2-tailed)		,462	,017	,023
	N	3	3	3	3
ROA	Pearson Correlation	,748	1	,765	,722
	Sig. (2-tailed)	,462		,445	,486
	N	3	3	3	3
EPS	Pearson Correlation	1,000*	,765	1	,998*
	Sig. (2-tailed)	,017	,445		,041
	N	3	3	3	3
ROE	Pearson Correlation	,999*	,722	,998*	1
	Sig. (2-tailed)	,023	,486	,041	
	N	3	3	3	3

Based on the most significant correlation between the corporate governance variables and ROE than ROA, we can conclude that ROE is a better performance proxi and ROA. Our decision to test our hypothesis concerning the correlation between corporate governance and financial performance based on ROE is in accordance with Westman (2009) and that sustained in their studies the fact that ROE is a preffered measure of bank profitability to ROA, because ROA is a component of ROE (Uwuigbe, 2011, p.146).

Table 5. Regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B		Correlations		
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
1	(Constant)	79,144	,215		367,743	,002	76,410	81,879			
	ROE	,053	,002	,999	27,088	,023	,028	,078	,999	,999	,999
2	(Constant)	79,263	,000		.	.	79,263	79,263			
	ROE	,051	,000	,961	.	.	,051	,051	,999	1,000	,664
	ROA	,042	,000	,053	.	.	,042	,042	,748	1,000	,037

a. Dependent Variable: CGV

From the hyphothesis tested through data regression analysis, a positive correlation of .961 is observed between the level of corporate governance items disclosed by the banks listed at Bucharest Stock exchange and ROE as a proxy for financial performance. This result indicates the fact that the banks that disclose more information on corporate governance mechanisms and framework are more likely to have a better financial performance than the banks that disclose less. Our results are in line with the studies of Uwuigbe (2011) and Peters and Bagshaw (2014).

Conclusions and implications

The study reveals that the banks listed at Bucharest Stock Exchange have registered high disclosure scores in regard to corporate governance issues and offered detailed information in regard to their: anual and semestrial financial and operating results, accounting policies, corporate framework (number of board members and their responsabilities, ownership structure, shareholders rights, division between Chairman and CEO, information about independent directors, composition and functioning of the committees), audit reporting and environmental and social responsibility policies/ programs; compliance with banking regulation. Despite this positive results, all of the three banks included in our analysis don't make a clear statement concerning the salaries of the members of the Council of Administration and the Executive Board or the risk profile of the credit performance.

Our study indicates the fact that there is a positive relationship between corporate governance disclosure issues and the financial performance of banks listed at Bucharest Stock Exchange. From the regression result for the relationship between corporate governance and ROE, the coefficient of .961 is positive, indicating the fact that stock market valuation is dependent of the disclosure of banks on corporate governance issues – especially, financial reporting. The analysis on financial performance on banks in terms of ROA, ROE and PER, indicates that the price share of Transilvania Bank is the most attractive for investors, with great potential of profit on a long term.

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