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Ph. D. THESIS SUMMARY

**REALITIES AND PERSPECTIVES,
PERFORMANCE AND RISK
IN THE ROMANIAN COOPERATIVE BANKING
SYSTEM**

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Against the backdrop of globalization and Romania's integration into the European Union, the national market system required a continuous adaptation to the standards of the European community and to the new rules of the game that combined in a unitary system the mechanisms of the market with those of the transition to an information society.

The central subjects of the present paper, performance and risk, can be defined as multidimensional concepts that cannot be reduced to a single element or a single figure. The role and implications of credit institutions in the international financial system are highlighted by the circumstances of the current economic and financial crises. Considering the emergence of the COVID 19 pandemic, at the global and national level, the premises of the processes of depreciation of the repayment capacity of the debtors (customers) and the increase of the risk of non-repayment associated with them were triggered, requiring the performance of periodic analyzes and the establishment, of mutual agreement with the debtors, of the debt recovery methods and their payment terms in order to reduce the credit risk.

In the last period of time, a special emphasis is placed on effective risk management under conditions of maintaining reasonable performance (not maximizing performance) in credit institutions. The appearance, in recent years, of new types of banking products and services, which have exposed credit institutions and especially cooperative banks to increasingly diversified and complex risks, require an update of the topic addressed, taking into account the specifics of the banking sector in Romania , the reform in this sector as well as the manifestation of cyber risk.

Cooperative banks represent a dynamic system in permanent change - considering the competitive context of the market economy. They have been subjected to profound reforms over the years, some more alert since the year 2000, with a constant focus on their restructuring, a process that led to the continuous modernization of this financial-banking system that had to be adapted to the requirements of the market economy, with legislation in harmony with that of the European Union.

Recently, interest margins have narrowed, and the competition for the lowest active interest rates and the highest passive interest rates has become a great challenge for financial institutions, as customers are increasingly informed and technology changes occur rapidly. Banking performance still remained an essential part of banking management, and the policies of the National Bank of Romania aligned with European Union standards were challenging for credit institutions.

In all this context, challenges have arisen for the entire banking system. One of these is the Lisbon strategy, which stands out through two central pillars: economic growth and employment, which implicitly can turn into a great opportunity for banks.

The Lisbon strategy involves large investments in knowledge and innovation, capitalizing on business potential, especially through the development of the small and medium-sized enterprises sector. The SME segment must become their main segment for banks (as it happens in other European Union countries), with SMEs having a very important role in economic growth. The pandemic had a major impact on EU-27 SMEs in 2020, with many SMEs experiencing significant sales declines. Supply disruptions, an increase in payment delays and operating at a loss were key challenges faced by many SMEs in 2020.

In 2020, there were approximately 19 SMEs per 1000 inhabitants in Romania, which was a considerably lower share than the EU-27 average of almost 40. With the improvement of economic conditions and economic growth in recent years, the number of active SMEs increased to 644 thousand (Eurostat 2020), and the SME sector in Romania represents 30 SMEs per 1000 inhabitants, closer to the EU-27 average (European Commission, 2021).

According to the World Bank - Europe 2020 study "Romania: Evidence-based policies on productivity, employment and skills improvement" (World Bank, 2013), both latent entrepreneurship and the probability of succeeding in starting a business (conditional on latent entrepreneur status) are associated with certain demographic and attitudinal characteristics as well as the quality of a country's business climate.

The relatively low rates of entrepreneurial potential and start-ups in Romania (23% compared to 27% in Western Europe) are actually a common pattern observed in transition economies. Several explanatory factors were invoked, among which we mention:

- institutional and attitudinal causes related to the legacy of centralized planning;
- business attitudes oriented towards undeveloped markets;
- an unfavorable business environment .

In particular, studies have found a correlation with low levels of trust in institutions, self-confidence and autonomy, in contrast to developed market economies, with traits related to risk-taking preferences, entrepreneurial orientations, development networks and the provision of entrepreneurial financing, elements that determine the fact that only 12% of potential entrepreneurs take steps to start a business in Romania, compared to 17% in Western European countries.

In Romania, starting from 2018, the growth of lending to non-financial companies registered an upward trend, but the influence of the COVID-19 pandemic was felt, so that the upward trend of lending was no longer maintained during the last two years, namely 2021-2022, the company Romanian and global banking facing serious economic and social problems. The European Central Bank has continuously fought for the reduction of financing costs and the revival of lending, in the hope of reducing the galloping inflation manifested especially in 2022. The European Investment Fund is part of the European Investment Bank Group (EIB), with the mission of supporting micro-enterprises, enterprises small and medium-sized enterprises (SMEs), facilitating their access to financing. The European Investment Fund intends to increase lending to small and medium-sized enterprises and to expand the range of intermediaries through which it operates, in particular by targeting small cooperative banks and other smaller institutions that specifically focus on small SMEs and enterprises newly established.

Another challenge for the banking system is the solvency and liquidity requirements imposed by the provisions of Basel III and more recently Basel IV, which can lead to a change in the banking business. The requirement to cover the liquidity requirement (LCR), according to EU regulation no. 573/2013, article 412, was, as of January 2018, 100%. The purpose of the Basel III Accord is to strengthen the stability of the banking system by correcting the deficiencies highlighted by the current crisis.

These are challenges that the banking sector will face due to the global financial crisis due in particular to the manifestation of the COVID-19 pandemic, as well as due to the major

change in the operating environment of credit institutions. In the situation where the challenges are treated and managed optimally, they can turn into opportunities, creating chances and hopes for all participants in the Romanian banking sector.

Considering the fact that Romania is part of the big family of the European Union, it is important to adjust the concepts, as well as to take drastic and energetic measures in order to adapt to the requirements of the European cooperative financial and banking institutions, including decision-making concentration measures, many of them achieved through fusion. The National Bank of Romania, starting with 1991, in order to modernize the Romanian financial-banking system and harmonize it with European legislation, adopted laws regarding banking activity and its operating status. They stipulated the basic principles regarding the further development of the Romanian banking system and credit cooperative organizations, which currently operate on the basis of Government Emergency Ordinance no. 99/6 December 2006 regarding credit institutions and capital adequacy, of law 227/4 July 2007 for the approval, completion and modification of O.U.G. no. 99/2006 regarding credit institutions and capital adequacy with subsequent amendments and additions, Regulation of the National Bank of Romania no. 11 and 12 of December 2020 with subsequent changes and additions.

At an agreed level, the credit institutions in Romania have the capacity to manage the unfavorable developments manifested in the market. The ratio of total own funds, throughout the last three years, has remained at a high level, profitability has strengthened, liquidity due to the intervention of the National Bank of Romania is no longer a constraint for banks, the quality of assets has improved considerably (the rate of non-performing loans being kept under control) against the background of maintaining a degree of coverage of losses with provisions above the average value in the European Union. Thus, the current economic situation requires effective risk management in order to obtain reasonable profitability and increased skills for bank managers in order to overcome less predictable situations.

The concept of performance aims at the economic-social interests of organizations in order to improve the specific activity. The concept of performance takes different forms, among which we mention:

- effectiveness;
- productivity;
- adaptability.

The concept of performance is associated with success, growth, effort (Jianu, 2007). Performance, according to the explanatory dictionary of the Romanian language, is explained in the form of a particularly good result obtained by someone or something (engine, device, person).

The performance of the banking system (banking system means, according to GEO 99/2006 on credit institutions and capital adequacy, with subsequent amendments and additions and the Regulations of the National Bank of Romania as well as G.O.G. no. 39/96 on the establishment and operation of the Guarantee Fund Deposits in the banking system, all credit institutions on the territory of Romania, i.e.: banks, credit cooperatives, housing savings and lending banks, mortgage credit banks and institutions issuing electronic money and having the following characteristics:

- economic
- technical
- staff quality.

In order to increase profitability, an important factor is also given by the performance of human resources. The performance of employees is important in the activity of a credit institution and the results obtained by the staff of the banking company are influenced by individual knowledge and skills.

Numerous studies have been conducted on the impact of human resource on the activity of an organization. Many researchers believe that motivation is what determines the performance of the staff and implicitly of the organization. Among the prominent researchers who have studied this aspect related to motivation, we can mention the following (Foriș, 2011) and Maslow (1954), who argued that human needs are ranked, from basic, physiological needs to basic needs higher self-development and fulfillment and Schein (1970), who, in an analysis of the behavioral sciences, identifies a set of assumptions that have been made about motivation. Chronologically, these are the following: Rational-economic Man, Social Man, Man motivated by self-realization and Complex Man.

Hiring, salary and promotion practices have a direct impact on evaluation procedures. If the salary level is determined by something other than performance, then the evaluation no longer has any meaning, turning into a purely formal activity, and if the promotion is carried out randomly, the results of the evaluation will not be taken into account in the management process (Foris, 2011).

As a starting point in the research carried out, I used the works developed under the auspices of the BIS (eng. Bank for International Settlements), the Monetary and Economic Department, which developed a series of analyzes at the level of the banking system in developing economies with the aim of supervision recorded developments.

During the course of the thesis, I captured aspects regarding risk and performance in the Romanian banking system under the context of the manifestation of the crisis due to COVID-19. Taking into account the research methodology, I established the following structure of my doctoral thesis: introduction, four chapters, conclusions, proposals, limits and perspectives of the research and bibliographic references.

The "**Introduction**" includes the main objectives of the thesis, the requirements from which the work started, the current state of knowledge and positioning within the specialized literature, the methodology of scientific research, the techniques and tools of scientific research used in the thesis and finally the structure and organization of the thesis.

Chapter 1 "History, present and future of the European credit cooperative" emphasizes the evolution of cooperative thinking at the national and world level, addressing the cooperative doctrine in the vision of the forerunners and perpetrators of the cooperative movement.

We paid special attention to cooperative theory and practice, emphasizing the cooperative social system that played an important role in the economic, cultural and moral upliftment of the peasantry during the time.

The theoretical foundation of the modern cooperative movement was built thanks to a series of thinkers such as Pieter Cornelius Ploockboy, John Bellers, Robert Owen and Dr. William King in England, Charles Fourier, Phillipe Buchez and Louis Blanc in France, considered the forerunners of the European cooperative doctrine, who they were animated by the desire to introduce a social-economic system meant to realize an ideal society, which was a utopia - taking into account the evolution of society.

The foundation of modern cooperation, according to specialized literature, was laid in the second half of the 19th century, when the practical cooperative systems were conceived, as follows:

- in England, "Society of fair pioneers from Rochdale" (1844); 10
- in Germany, the model imposed by Friederich Wilhelm Raiffeisen (1818-1888) and Herman Schulze-Delitzsch (1808-1887);
- in Germany, the intermediate model created by Wilhelm Hass (1839-1913);
- in Italy, the model created by Luigi Lazzati (1841-1927).

The ardent promoters of the cooperative movement in Romania were: Ion Ionescu from Brad, P.S. Aurelian, Spiru C. Haret, I.N. Angelescu, N. Iorga, Ion Mihalache, G. Ionescu – Sisești, Gr. Mladenatz, Mircea V. Pinescu, A. G. Galan, Dimitrie Gusti, Ion Răducanu and many others.

The cooperative banks affiliated to the CREDITCOOP network permanently contribute to redefining the role, place, mission of cooperation and cooperative values in Romania, continuously adapting to the requirements of the modern European world of the 21st century.

Chapter 2 "Organization, performant activity in credit cooperative organizations"

addresses to cooperative credit organizations - cooperative banks, guidelines for a new performance as well as performance supervision and prudence in their performance activity.

Taking into account the fact that a healthy financial system is the starting point for economic growth, we have identified modern trends in the activity of credit institutions, the impact of banking reform and the crisis due to the COVID-19 pandemic on cooperative banks.

The globalization of markets, the extremely fast evolution in technology and especially in cybernetics and artificial intelligence, the increasingly fierce competition between credit institutions in order to offer customers attractive banking products and services have led to an acceleration/diversification of activities in the banking system.

During the period of the centrally planned economy, the banking system in Romania was organized, broadly speaking, according to the Soviet monobank model. In the period after 1989, the Romanian banking system faced fierce competition and numerous legislative changes considering the policies of the National Bank of Romania that were aligned with the standards of the European Union.

The credit union represents a dynamic system in permanent change considering the competitive context of the market economy.

The cooperative banks were subjected to profound reforms starting in 2000, aiming at their restructuring, a process that had to continuously adapt to the requirements of the market economy in harmony with the European Union legislation.

The global financial crisis due to the COVID-19 pandemic initially affected developed countries, but risk aversion quickly spread to all countries of the world, deeply affecting Romania as well.

On a global level, the main challenges of the international financial context remained: "the worsening of risk perception, including through contagion with the unfavorable regional

evolution; contraction of international sales markets; more difficult external financing and replacing the global liquidity risk with the solvency risk." (NBR 2019).

In this chapter, we paid special attention to the planning and development strategy of the bank, as well as the effects of the financial crisis due to the COVID-19 pandemic on the strategy of maintaining the capital level.

The implementation of the changes within the Unirea Braşov Cooperative Bank is subject to events capable of making the process even more difficult by the need to confront circumstances specific to the global economic-financial crisis due to the COVID-19 pandemic.

Since 2019, regulatory bodies within the financial system have tried to find solutions to the problems currently facing the financial industry and the global economy, and the G 20 summit that took place in recent years confirmed that governments around the world is looking for solutions and appropriate measures in order to prevent the recurrence of such a crisis in the future.

The markets must accept the need for a restructuring period that takes into account the realities regarding the impact of the current economic-financial crisis, and the concept of risk is given a different importance today by virtue of the banking paradigms of the past, when credit institutions did not give enough attention to the need to diversify funding sources, risk and reasonable profitability (Constantinescu, 2019). In these conditions, the world's famous economists consider it necessary for all market participants to become aware of the dynamics of changes taking place in the financial industry and to adapt their organizational strategy accordingly.

In this chapter, we have carried out four case studies concerning:

- A) The European Cooperative System, the role of the European Union in its development and the financial performances recorded by it;
- B) Banking cooperation models in Europe;
- C) Analysis of the financial performance of the cooperative banking system in Romania;
- D) Analysis of the financial activity of Banca Cooperatiste Unirea Braşov.

Through the previously mentioned case studies, I want to complete and improve a literature that is so necessary for leaders and other people with positions of responsibility in the cooperative banking system and in other specific fields, who can properly adopt the data and ideas from the thesis.

In chapter 3 "Efficient management strategy of significant risks in the cooperative banking system" we theoretically and practically analyzed the risk profile of the cooperative banking system with an emphasis on Banca Cooperatistă Unirea Braşov.

We put special emphasis on risk management during the pandemic period and identified modern trends regarding the performance and risk of credit institutions in the current economic-financial crisis, taking into account the impact of the Basel III Agreement on the limits imposed on the level of risk registered by a financial institution.

The supervision activity is oriented towards the analysis of the credit institution's risk profile, the existing means and instruments at the disposal of its leaders for the efficient management of specific risks. Rating and early warning systems, stress-testing and interbank contamination are sophisticated techniques that enable the successful achievement of the previously mentioned objectives.

These tools use relevant information about the characteristics of a credit institution and its counterparties, based on which a synthetic measure of their performances and vulnerabilities is provided. New elements of the Basel III Agreement with its implications in changing the approach to the prudent management of banking risk, including the modification of the regulatory and banking supervision framework, were captured in the paper.

In the content of this chapter, we have analyzed, one by one, the significant risks of the cooperative banks, the strategies and policies of Banca Cooperatiste Unirea Braşov under the conditions of the risks amplified by the economic and financial crisis due to the COVID-19 pandemic.

The research carried out by me and translated into this thesis was a laborious one, analyzing the phenomena from the general to the particular, from the origins to the present and from the international to the national.

In chapter 4 "**Modern trends in the activity of credit cooperative organizations regarding marketing, management and human resources**" we started from the fact that one of the four resources with which credit institutions operate in order to increase profitability is the human resource and therefore I paid special attention. In addition, we covered modern trends in credit cooperative organizations regarding marketing and management. An extensive research was carried out regarding the expectations customers/cooperative members of Banca Cooperatiste Unirea Braşov. We did an extensive analysis on the profitability/profitability of introducing the card system in credit cooperative organizations in Romania.

I couldn't help but pay due attention to the sustainable management of the cooperative banking system, both at the European level and in Romania, as well as the manager of the credit institutions as the central figure of the management system. We cannot talk about management without addressing managerial communication and ways to increase its efficiency at Banca Cooperatistă Unirea Braşov.

This last chapter is of a smaller size considering that this doctoral thesis is in the field of Economics. However, being a multidisciplinary thesis, we cannot discuss economic aspects without addressing areas such as marketing, management and human resources.

Conclusions, proposals, limits and perspectives of the research, the last chapter of the thesis, includes the synthesis of the results obtained and presents the conclusions drawn, which represent possible measures, guidelines and directions in improving the prudent management of banking risk, as well as the diversification of the products offered by the cooperative banks in Romania. At the same time, a series of proposals are developed regarding the improvement of the Basel III Agreement, as well as the research perspectives that make up the object of the paper.

Another particularly important aspect that banking companies must take into account when designing their risk management strategy is the impact that the economic-financial crisis due to the COVID-19 pandemic had and still has on its customers/members. Only an accurate knowledge of the effects felt in the customers' business can influence the credit cooperative organization in making the best decisions for the continuity of the activity under performance conditions. The prudent risk management models used by the CREDITCOOP network are permanently adapted to current market conditions, to the demands and wishes of customers/cooperative members.

In order to have a high-performing and profitable activity in credit cooperative organizations, we must address, interdisciplinary, the issue of banking activity cooperatives, in a systemic conception, based on the optimization of their relations with the economic-social environment.

