

Exploring Corporate Social Responsibility in Foreign Bank Branches from Romania: An Empirical Analysis of Public Disclosure of Financial Statements and Banking Audit Reports

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Abstract: The purpose of this study is to investigate the Corporate Social Responsibility CSR/the Social Responsibility Disclosure SRD reporting practices referring to the published banking financial statements and the published auditors' reports. The study was conducted on the foreign bank branches from Romania and is based on their Romanian language web-sites, that constitute the data for the analysis. The results show that voluntary CSR/SRD concepts to disclose the financial statements and the auditors' reports on the Romanian web-sites were applied only by two from nine foreign bank branches. We plead for a social responsibility of the banks, even if they are foreign bank branches that conduct their activities according to the law from their origin countries. Disclosing the economic outputs via web-site could contribute to a high level of banks' transparency and makes part from the responsibility to society into the Corporate Social Responsibility CSR concept.

Keywords: Banking Disclosure, E-Transparency, Social Responsibility of Banks, Informational Asymmetry

JEL Classification: M42, G21, G28

1. Introduction, Theoretical Background and Research Methodology

The subjects of our study are the nine foreign bank branches (branches of credit institutions, foreign legal persons) that activate in the Romanian banking system, according to the data published by the National Bank of Romania. The foreign bank branches owned 9,4% of net assets of the Romanian banking system and 5,8% of owns funds of the Romanian banking system, at the end of 2013 (National Bank of Romania, Annual Report 2013, p. 75).

We formulated and tested a research hypothesis related to the assumptive gap in the Corporate Social Responsibility CSR/ the Social Responsibility Disclosure SRD of the foreign bank branches that activate in Romania:

- *Hypothesis H.1:* Foreign bank branches active in Romania disclose the financial statements and the banking auditors' reports in the Romanian language at their Romanian web-sites.

Our study evaluates whether the two concepts of banking disclosure - the Corporate Social Responsibility CSR and the Social Responsibility Disclosure SRD - are applied in the public disclosure of financial statements of the foreign bank branches active from Romania. This paper is structured as follows. First part reviews the existing literature on the determinants of the cross-border financial integration, the Corporate Social Responsibility and the Social Responsibility Disclosure theories in the banking systems. The second part presents the data analysed from each foreign bank branches on their Romanian language web-sites. The final part presents our

conclusions.

From a public perspective of transparency, banks live actual confused times when they oscillate between discretions about the financial or accounting practices and disclosing the financial information. Less informed banking stakeholders could be a hidden goal for the banks managers, that could try to manipulate the financial information in order to create an "optimal" perspective for the stakeholders. Of course, "optimal" in the approach of the banks managers, which suggest an attitude that conducts to the apparition of a disparity, an informational asymmetry between banks' stakeholders needs to be informed and the information disclosed by banks.

An open question is the structure of the information that banks have to disclose and the channels that have to be used. Development of the virtual social-media environment, like the Internet, facilitate the banks' transparency. However, it remains the question regarding the information compulsory to be made public and very important, the moment in which a bank has to make information public. Regulatory authorities have to improve the regulatory banking system whose boundary is difficult to be established. Many accounting rules are based on the estimations and allow banks to develop a discretionary part of accounting, situated at the limits of the law. An example is the case of the delay in the expected loss recognition of the loans, that primary affect beyond the indicators of capital adequacy and then upset the banks' transparency and the investors' uncertainty.

National Bank of Romania is preoccupied by the disclosure requirements for information on prudential supervision and has developed a web-site special section (<http://www.bnr.ro/Supervisory-Disclosure-3405.aspx>) to comply with the disclosure requirements for information on prudential supervision and to enable the access to information on the implementation in Romania of Basel II and, subsequently, Basel III. Laws and regulations ensuring the implementation in Romania of Basel III provisions included in the CRD IV/CRR regulatory package (Government Emergency Ordinance no. 99/2006 amended by the recent Government Emergency Ordinance no. 113/2013). We identified the general disclosure framework for the credit institution, that is contained by the Regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no 648/2012. According to this regulation, the credit institutions have to published annual the financial statements and may determine the appropriate medium, location and means of verification to comply effectively with the disclosure requirements (risk management objectives and policies, own funds, capital requirements etc). To the degree feasible, all disclosures shall be provided in one medium or location. If a similar piece of information is disclosed in two or more media, a reference to the synonymous information in the other media shall be included within each medium. If disclosures are not included in the financial statements, institutions shall unambiguously indicate in the financial statements where they can be found.

Conventionally, the Corporate Social Responsibility is associated with: business responsibility for society (compensating for negative externalities, contributing to welfare) and responsibility to society (accountability); responsible business conduct (to ensure market stability and probity); and the management of the corporation–society interface (Gond and Moon, 2011 cited by Herzig and Moon, 2013). One of the above meanings is represented by the responsibility to society, respectively accountability. Disclosure of the banks' financial statements and of the auditors' reports is part of the accountability. In essence, the financial reporting through the financial statements is a post-factum informing, after the events happened in the banks. This post-factum feature of the financial statements of the banks represent a major limit that negatively affect the degree of informing of banks' stakeholders. Additionally, in

Romania, there is no legislative requirement for the Corporate Social Responsibility reporting of the financial statements on the web-sites of the banks. So, voluntary disclosure remains the single banks' option to improve the informational degree of the stakeholders.

We developed the study based on the assumption that there is the gap in the Corporate Social Responsibility in the countries from Central-Eastern Europe Member States and some differences of the understanding and the relevance of few Corporate Responsibility issues between Western and Central-Eastern Europe economies (Steurer and Konrad, 2009). We have developed the paper on the Romania's case and have studied the situation of the foreign bank branches, taking into account that there are several insights into the functioning of the banking sectors of transition economies. These banking sectors differ considerably from those of developed and developing countries due to their unique history (Haselmann, 2006). In Romania, the government had to resolve significant structural economic problems before the foreign banks became prevalent at the end of the 1990s (Temesvary and Banai, 2015). In the countries of Central and Eastern Europe and Central Asia (ECA), financial opening or financial integration increase the potential downside risks in the absence of adequate regulatory and supervisory frameworks (Feyen et al., 2014). The authors considered that the Vienna Initiative prevented a severe withdrawal of parent funding and a more dramatic slowdown of credit in the mentioned Central and Eastern Europe and Central Asia ECA countries, but all the countries that were overextended before the crisis have been adjusting their funding structures, both the countries that relied more on parent funding and those that relied more on direct borrowings abroad.

Our research adhered to the Social Responsibility Disclosure SRD theory and we studied the web-page in Romanian language of the foreign bank branches active from Romania. Internet represent a medium through the banks can disclose public information and we were interested especially by the financial statements and the banking audit reports' disclosure. Similar studies were developed only on the domestic banks that activate in Romania and suggest that 31% from the analyzed banks did not disclose their auditors' reports during 2000-2011 (Socol and Ivan, 2013).

Analogue dedicated literature upon the theme was develop on Turkey's banking system (Atakan-Duman and Ozdora-Aksak, 2014). The authors developed a study referring only to the domestic Turkish bank and indicated that Turkey's eight largest banks prefer to highlight non-economic outputs when communicating their identities to their stakeholders. Public visibility of Portuguese banks has studied by Branco and Rodrigues (2008), that analysed two media of Social Responsibility Disclosure: corporate web sites and annual reports. SRD on the Internet in August 2004 and August 2005 was compared to similar disclosure in 2003 and 2004 annual reports. The social responsibility reports which were published by two banks were also considered in the analysis. This paper shows that Portuguese banks seem to attribute greater importance to annual reports as disclosure media than to the Internet.

Considering the above literature it is evident that there are many studies relating to the banking sector integration, that represent today a very controversial subject. Financial crisis has degraded the integration degree of the banking systems and have contributed to the fragmentation of the banking systems. Mayordomo et al. (2015) have considered that among the most significant factors that contributed to the high levels of fragmentation observed in the interbank market during the crisis are overall factors (counterparty risk and financing costs) and country-specific factors (banking sector openness, debt-to-GDP, and the economic sentiment). The authors have presented that fragmentation affected more to the peripheral countries due to their higher dependence on external funding, higher levels of debt, and worse

economic situation. Financial integration in the European Union have aroused the interest of the researchers, that have developed studies referring to the perspectives of the euro, between optimistic and critical or pessimistic approach (Oprîtescu et al., 2014; Bădîrcea and Manta, 2014). Criticism addressed to the future of the globalization process are legitimated, based on the financial crisis that worsened situation financial capital and mechanisms of global distribution (Perpelea et al., 2014).

Liberalization of banking services across the countries is a contemporary reality and is based on the premise that the open banking systems are expected to function more efficiently. Also, the open banking systems could contribute to the intensifying of the concurrence and to the developing of the competitive banking industry. Nevertheless, liberalization of the banking services could negatively affect the customers' perception on the national banking system. Banking customers could consider that a foreign bank does not offer the same quality of the banking services as the domestic banks. Also, banking customers could not trust in the recovery of their savings if the foreign bank would get bankrupt. On the other hand, foreign banks could have access to new banking technology and to sound corporate governance that contribute to the efficiency of the domestic banking sector. Beyond these fears or proper attitudes towards foreign bank, the intensification of the market concurrence between banks imposes them to offer services that increase customers' satisfaction levels and contributes to a high quality of the national banking system.

Previous research have explored the subject of the cross-border banking patterns that have changed since the global financial crisis (Bremus, 2015). The author's findings converge to the idea according to which both cross-border lending and bank foreign direct investments mitigate concentration, based on the empirical evidence from a panel dataset of 18 OECD countries. The empirical evidence supports the theoretical predictions: higher volumes of bank foreign direct investments and of cross-border lending coincide with lower Herfindahl-indexes in bank credit markets.

2. Data Analysis

Information published by each foreign bank branches on their Romanian language web-sites (if exist) constitute the data for our analysis. The distinctive theme is economic outputs referring the annual reports, the financial statements and the auditors' reports. Mandatory versus voluntary Corporate Social Responsibility represents a major subject in the banking field. Our analysis indeed with the voluntary disclosure, because there is no compulsory regulation on the published mentioned information (the financial statements and the auditors' reports) by the foreign bank branches on their Romanian web-sites.

The foreign bank branches that activate in April 2015 in the Romanian banking system are, according to the information published by the National Bank of Romania in the Register of Credit institution:

- ING BANK N.V. AMSTERDAM - SUCURSALA BUCURESTI (INGB)
- BANK OF CYPRUS PUBLIC COMPANY LIMITED NICOSIA SUCURSALA ROMANIA (BCYP)
- BNP PARIBAS FORTIS SA/NV BRUXELLES SUCURSALA BUCURESTI (GEBB)
- BLOM BANK FRANCE S.A. PARIS SUCURSALA ROMANIA (BLOM)
- MONTEPIO CREDITO - INSTITUICAO FINANCEIRA DE CREDITO SA PORTUGALIA SUCURSALA ROMANIA (MPIO)
- CITIBANK EUROPE PLC DUBLIN SUCURSALA ROMANIA (CITI)
- TBI BANK EAD SOFIA SUCURSALA BUCURESTI (TBIB)
- THE ROYAL BANK OF SCOTLAND PLC EDINBURGH SUCURSALA ROMANIA (RBOS)

- VENETO BANCA SCPA ITALIA MONTEBELLUNA SUCURSALA BUCURESTI (VEBH)

Table no. 1 - Financial Information disclosed by Foreign Bank Branches that activate in Romania on their own web-sites (accessed in April 2015)

Disclosed Information in Romanian / English	Foreign bank branches - BIC (Bank Identifier Code)								
	INGB	BCYP	GEBA	BLOM	MPIO	CITI	TBIB	RBOS	VEBH
Annual Reports and Financial Statements - Romanian language	No	No	No	No	No	2002-2007 Ro 2008-2013 En	No	No	2006-2013 Ro
Auditors' Reports	No	No	No	No	No	2002-2007 Ro 2008-2013 En	No	No	2006-2013 Ro
Auditors' Opinion	No	No	No	No	No	UO 2002-2013	No	No	UO 2006-2013

Legend: UO - Unqualified Opinion in the Auditor's Report

Also, there were 270 foreign banks that exercised the freedom to provide services within the territory of Romania on cross-border basis (without establishment of branches) according to Article 28 of Directive 2006/48/EC (sooner Article 21 of the Directive 2000/12/EC).

ING BANK N.V. AMSTERDAM - SUCURSALA BUCURESTI owns a Romanian language web-site www.ing.ro, that does not provide information about annual reports, financial statements or auditors' opinion in Romanian language. The web-site permits the link with English web-site ING Group.

BANK OF CYPRUS PUBLIC COMPANY LIMITED NICOSIA SUCURSALA ROMANIA owns a Romanian language web-site www.bankofcyprus.ro, that does not provide information about annual reports, financial statements or auditors' opinion in Romanian language. The web-site permits the link with English web-site bank of Cyprus Group.

BNP PARIBAS FORTIS SA/NV BRUXELLES SUCURSALA BUCURESTI does not own a Romanian language web-site. It has only an English web-site <http://www.romania.bnpparibas.com/en/>, that present Romania's branch of the bank.

BLOM BANK FRANCE S.A. PARIS SUCURSALA ROMANIA has a Romanian section in its English web-site <http://www.blomfrance.com/news/4/ro/>. The published annual reports, financial statements and auditors' reports between 2010-2013 are only in English and French.

MONTEPIO CREDITO - INSTITUICAO FINANCEIRA DE CREDITO SA PORTUGALIA SUCURSALA ROMANIA does not have a Romanian section on its Portuguese web-site www.montepio.pt, where information could be find and in English.

CITI BANK EUROPE PLC DUBLIN SUCURSALA ROMANIA have published on its Romanian web-site www.citibank.ro information regarding the annual reports, financial statements and auditors' reports, but only in the English language between 2003-2013. The bank discloses in English the group's financial statements that have prepared according to the International Financial Reporting Standards IFRS (2002-2013). Also, the bank discloses the branch's financial statements that have prepared

according to the Romanian Accounting Standards RAS (2002-2003 in Romanian, 2004-2011 in English). Auditors' reports present for the entire analyzed period the Unqualified Opinions UA for the groups' IFRS financial statements. For the Romanian branch of the bank, the auditors' reports were disclosed only for the period 2002-2008 (2002-2007 in Romanian and 2008 in English). The financial statements of the bank between 2002-2013 were audited by KPMG.

TBI BANK EAD SOFIA SUCURSALA BUCURESTI owns a Romanian language web-site www.tbibank.ro, that does not provide information about annual reports, financial statements or auditors' opinion in Romanian language.

THE ROYAL BANK OF SCOTLAND PLC EDINBURGH SUCURSALA ROMANIA owns a Romanian language web-site www.rbs.ro, that does not provide information about annual reports, financial statements or auditors' opinion in Romanian language.

VENETO BANCA SCPA ITALIA MONTEBELLUNA SUCURSALA BUCURESTI owns a Romanian language web-site www.venetobanca.ro, that provides information about annual reports, financial statements (IFRS based) and auditors' opinion regarding to the group of the bank in Romanian language between 2006-2013. The financial statements of the bank branch for the year 2013 were audited by TLS Member firm of PricewaterhouseCoopers SPA, in 2012, 2011 and 2010 by PricewaterhouseCoopers Audit SRL, in 2009, 2008, 2007 and 2006 by Re.Bi.S SRL. Auditors' reports present for the entire analyzed period the Unqualified Opinions UA.

Results reveal that seven from nine foreign bank branches do not provide any analyzed economic outputs information in the Romanian language on their domestic web-sites. Only two foreign bank branches provide information regarding the annual reports, financial statements (IRFS based or RAS) and auditors' reports, in English/Romanian language.

3. Conclusions

This paper examined the degree of economic output disclosures at the level of foreign bank branches that activate in Romania, studying the Internet as the social disclosure mean. The empirical evidence does not support the theoretical prediction and the hypothesis H.1. We found that the majority (77%) of the foreign bank branches active in Romania do not disclose the financial statements and the banking auditors' reports in the Romanian language at their Romanian web-sites.

We analyzed a voluntary disclosure banking environment, because the foreign bank branches do not benefit by the specific disclosure regulation as the credit institutions themselves (the general disclosure framework for the credit institution is contained by the Regulation (EU) no 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no 648/2012).

We underline the lack of regulation in the disclosing of the economic outputs by the foreign bank branches that activate in other countries then the origin one. If the settlements are missing, the banks could not disclose information in the language of the country in which provide they banking services. Based on this assumption, we argue for the regulation framework of this subject or for a voluntary disclosure behavior of the foreign bank branches.

Our analysis rallies on an important affirmation that belongs to Jain et al. (2015), according to which the Corporate Social Responsibility reporting and its assessment is by no means an exact science. The authors considered that Corporate Social Responsibility CSR reporting is an organic process, one that is continually evolving.

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