

Analysis of Leadership at The National Bank Of Romania

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Abstract: Leadership could be seen as a process to achieve company's goals through company's people. In any company and also in banks and central banks, leadership could register notable performance as a result of harmonization between formal and informal organization of the company. Maintaining a dynamic and optimal balance for ensuring the simultaneous attainment of individual aspirations of employees and company objectives should be a goal and a permanent preoccupation of the management team. Nowadays, leadership of the central banks have to face a multitude of issues that concern accountability and credibility of monetary authorities. In this regard, one of the essential characteristics that determine and influence leadership of a central bank was to ensure that the degree of central bank independence from the political authorities of the country concerned. Before and during the international financial crisis, NBR has faced some important and difficult periods, watershed might say, in terms of the proper functioning of his leadership. These include: adopting the strategy of monetary policy based on inflation targeting, the speculative attack on the currency in the period 17 October to 5 November 2008 and the liquidity crisis of Romanian banks with foreign capital.

Key words: central bank functions, formal and informal organization, decision taking, inflation targeting strategy, speculative attack on currency

JEL classification: E52, E58, G20, M10, N20, O20

1. Introduction

This article aims to highlight the importance of leadership at the level of central banks, the impact it has style and how to involve people in the process of ensuring the functionality of the central bank. Understanding correlations and influences that the central bank has in the entire banking system and the national economy is the starting point in analyzing how the type of leadership adopted and applied at the level of national monetary authorities influence the thinking and action.

Regulation of NBR was in the period 1991-1998 the Law no.34/1991, beginning to 1998, the Law no. 101/1998 and finally starting with 2004 the Law No.312 of 28 June which fulfills the Statute of the NBR. Consistent with the Statute, the central bank has in a legal plan greater independence, both in the context of the new Conditions; Romanian banking system and the theoretical approach of the role of the monetary authority, which currently exist in the world.

The importance of this study is reflected by approaching and discussing some important problems, arose after the financial crisis, in terms of the proper functioning of the central bank leadership. These include: adopting the strategy of monetary policy based on inflation targeting, the speculative attack on the currency in the period 17 October to 5 November 2008 and the liquidity crisis of Romanian banks with foreign capital.

2. Leadership in Central Banks

Leadership could be seen as a process to achieve company's goals through company's people. The literature defines leadership as "The action of leading a group of people or

an organization" and "process of social influence in which one person can enlist the aid and support of others in the accomplishment of a common task" (Hill; 2013).

In any company and also in banks, leadership could register notable performance as a result of harmonization between formal and informal organization of the company. Maintaining a dynamic and optimal balance for ensuring the simultaneous attainment of individual aspirations of employees and company objectives should be a goal and a permanent preoccupation of the management team. It can be said, in this context, the informal structure must be strong enough to support formal organization but at the same time, must also be flexible enough not to dominate or disrupt the normal functioning of the system.

By informal organization one can understand all groups and spontaneous human relations established between employees of the same institution, aiming to satisfy their personal interests, while formal organization can be defined as the design / development / updating of the organizational structure of the company, which is represented through all positions and departments, how they are formed and grouped, and the links that are established between them in order to achieve objectives.

In pursuing the objective of harmonizing the formal and informal organization of a company, leadership will need to focus on the following aspects:

a) find malfunctions such as: failure in fulfillment of duties, lack of interest, wasting time, low accountability against the tasks received, resistance to change, interpersonal or group conflicts. All these are likely to impede the normal functioning of the internal

mechanisms and the causes derived exclusively from informal organization of people involved.

b) identify and analyze information through: preliminary documentation to determine correct the problem, highlighting significant symptoms, identify deficiencies and their root-causes.

c) set objectives and measures to influence informal organization. Selecting the way to influence informal organization will consider the focus on minimal resources to achieve maximum results and comprise: acceptance and understanding informal structure, the personal interests of the group, any informal structure adversity reactions to the measures taken to influence, quick integration of personal interests and the interests of the group, avoiding unnecessary threats through formal organization.

There is a strong correlation between adjacent objectives and measures and, therefore, it is necessary that both the requirements and the conditions specified consider a consistent set of criteria that we always have in the manager carefully.

Leadership is essentially based on decision taking. Taking decision materialize an idea, intention or project in order to respond to a specific problem and is a form of social validation of an action by putting in motion the human, material and financial resources. Decisions implementing in practice is the most relevant qualifying criteria for the assessment of leadership.

Efficiency in taking a decision is a choice between several different alternatives (variants) followed by the action. The decision is related to the forecasting function of the manager, although it is present in other functions provided by members of the management team.

The choice of a particular decision is influenced by:

- Conclusions drawn from detailed analysis of the premises problem to be solved;
- The existence of alternative conditions the very possibility of a decision;
- Evaluation of alternatives by criteria of efficiency;
- The possibility of establishing the best decision in a period required.

Decision taking require from managers intelligence, knowledge and experience in the field, and that is showed in the quality and efficiency of decision. Given that fact, the manager has a specific purpose in mind when taking a decision and the effort is justified only to the extent that decision ensures positive prospects for that purpose.

In any company and especially in banking, decisions are made at all hierarchical levels. The importance of these decisions and the degree of difficulty related to a particular decision option can be appreciated according to following criteria:

- The period of time involved by the decision;
- Flexibility of actions which is developed based on the decision taken;
- Certainty of achieving goals;
- Human impact and quality of resources in this area to execute the decision in optimal conditions during the established period of time.

In the banking system, the central bank has a major role. By the functions performed, by multilateral ties with other banks and, through them, with the economy, the central bank is a hub of the banking system.

There could be accepted some important functions (minimum functions) of a central bank today that are categorized in five areas (Collyns; 1983):

- a) currency issue and foreign exchange reserve management;
- b) banker to the government;
- c) banker to commercial banks;
- d) regulation of the financial system;
- e) monetary and credit policy.

There are, no doubt, many more functions as it is showed by the Bank for International Settlement that has published a complete list of approximately twenty separate functions for a central bank.

Taken into consideration leadership in central banks the words of an important central banker could offer a genuine picture: "Central bankers are conservative people. They take great care in implementing policy; they speak precisely; they explain changes completely; and they study the environment trying to pinpoint where the next disaster looms. Good monetary policy is marked by its predictability, but when the world changes, policymakers change with it. If a crisis hits and the tools at hand are not up to the job, then central bank officials can and will improvise." (Cecchetti; 2008).

Nowadays, leadership of the central banks have to face the following issues (Mendzela; 2003):

- "organizational structures that do not support current functions well;
- overload at the top through insufficient or ineffective delegation;
- difficulty in attracting and retaining talented people;
- a struggle to get creative outputs from policy functions;
- proliferating "internal support" departments with growing resource levels;
- above-market remuneration paid to long-serving staff of limited future value;
- a lack of cost information and difficulties in controlling costs."

After international financial crisis, trust in central banks has declined and the reaction of central banks to the crisis is generally judged as unsatisfactory by the general public. The loss of credibility in central banks is preponderantly striking in Europe (see Panel A and B in Table 1).

Table 1.Replies to the question: "Do you feel the Central Bank has responded appropriately to the challenges of the economic downturn?"

	UK (BoE)	Euro area (ECB)	US (Fed)
Yes	28	19	23
No	34	43	41
Not sure	38	38	36
Net Balance	-6	-24	-18

Note: Euro area (ECB) population weighted based on data from panel B.

Panel B

	UK (BoE)	Euro area (ECB)	US (Fed)
Yes	28	19	23
No	34	43	41
Not sure	38	38	36
Net Balance	-6	-24	-18

Source: Harrisinteractive, 2008

The loss of trust in central banks have wider implications on its independence that had broad public support. In this respect, the loss of credibility in the policy conducted by the European Central Bank (ECB) could be a cause of big concerns because “a monetary union whose central institution does not have the trust of its citizens is bound to run into political problems sooner or later” (Gros, Roth; 2009).

3. National Bank of Romania and leadership issues

The National Bank of Romania is managed by a Board of Directors that is composed of nine members appointed by Parliament nominates the executive management for a period of 5 years, with possibility of renewal. Board members can not be MPs and can not do, according to law, of justice or public administration. Permanent executive structure consists of the National Bank governor and three deputy governors, one of whom is the first deputy governor. The other five members are not employees of the Central Bank. Chairman of the Board of Directors of National Bank of Romania is the NBR Governor Mugur Isărescu. NBR Governor is accountable to Parliament for regulating the monetary policy and banking supervision and monitoring.

The Board of Directors is the body with the right decision regarding monetary policies and exchange rate, licensing, regulation and prudential supervision of credit institutions, oversight of payment systems, the internal organization of the bank. Board Decides also that the attributions of executive structures and NBR staff. NBR Board of Directors consists of nine members appointed by the

Romanian Parliament for a period of 5 years.

To ensure the effectiveness of decision-making in the NBR are 4 operational structures responsible for exercising the main functions of a central bank:

- Monetary Policy Committee
- Supervisory Committee
- Reserve Management Committee
- Audit Committee.

Monetary Policy Committee established as a permanent structure in an advisory and decision-making consists of nine members and is led by central bank governor. The main tasks is to establish strategic coordinate monetary policy operational framework of its characteristics, objectives and guidelines on different time horizons, and measures to improve and increase the effectiveness of monetary policy and its operational framework, including in terms of harmonization with the requirements of the European Central Bank.

The Supervisory Committee is a permanent structure and decisional deliberative nature. It is composed of 10 members and is led by central bank governor. The duties and powers aimed at monitoring and evaluation activities of the operation of credit institutions in terms of asset quality, financial performance and their classification in the regulated prudential indicators, and ensuring regulatory base, according to specific laws and international practices in the field.

Reserve Management Committee is a permanent structure, composed of 11 members and is led by central bank governor. Its main functions are to fulfill the strategic guidelines adopted by the Board in the management of international reserves. The Committee shall establish a list of entities with which business trading in the securities of issuers for investment and the assets

accepted for investment; make proposals on the implementation and use of financial instruments (including derivatives); analyzes the markets and proposing strategy for the future.

The Audit Committee examines and proposes strategic directions and policy NBR internal control, risk management, internal and external audit. It consists of 5 members of the Board of Directors who are not part of the executive management of the bank.

In his capacity as monetary authority of Romania, National Bank is considering conducting monetary policy, financial stability, nationwide banking supervision and ensuring the smooth operation of payment systems. Following this task, there are many different levels of expectations in the economy and society, namely population, companies, banks, government and international organizations.

The population expects the central bank to guarantee deposits at banks in monetary values as large as a result of bank regulations that adopt to ensure the maintenance of a general price level as low as possible and have easier access to loans from banks.

The companies expect the central bank to facilitate quick access to bank lending on the basis of costs and bank charges as low and diversification that banks can offer companies especially in terms of financing the activities, all based on measures monetary policy and rules set.

The government expects a strong partnership of the Central Bank regarding the management of macroeconomic policies because monetary policy is the prerogative of the central monetary authority and facilitating the financing needs of the state money through loans.

Banks expect from the National Bank a sound intervention on the money market in order to ensure liquidity and stability of the banking system and also the implementation of monetary policy that favors the development of their activities and increases bank profitability.

International organizations expect from the central bank to be a guarantor of the country's financial and economic stability, a guarantee of fulfillment of payment obligations of the Romanian state.

One of the essential characteristics that determine and influence leadership of a central bank was to ensure that the degree of central bank independence from the political authorities of the country concerned.

The activity of central banks and the conduct of monetary policy is guided by certain department, whose constituents are members appointed by various criteria. Thus, depending on whether the election of the governor and board members depend on the relationship between political power, one can determine the degree of independence of the central bank.

As many models used to quantify the degree of independence of the Central Bank, such a pattern is the one that developed legal evidence of the independence and it is realized by Grili, Masciandaro and Tabellini, named GMT (in 1991), the authors making distinction between political and economic independence of the central bank.

The GMT model is based on some political independence criteria:

- 1) The appointment of the governor by the Government or Parliament;
- 2) The mandate of not less than 5 years;
- 3) The appointment of board members by the Government or Parliament;

- 4) Board members tenure is 5 years;
- 5) There is no government members in BM;
- 6) Credit policy and foreign exchange is exclusively the authority of the Central Bank;
- 7) The Central Bank pursues price stability, which is an objective set out in the statute;
- 8) Existence of legal provisions to support the bank's position in the event of conflict with the government.

Concerning this particular point of view, worldwide, central banks raise their insubordination against politicians not to be confronted with more demanding obligations of reporting and transparency to the public. National Bank of Romania do not published the minutes of its board meetings and, consequently, the public knows nothing about the actual making monetary policy decisions. The general public do not know what is discussed at these meetings, what are the votes of each of the members the NBR Board and how they argue their vote, nor their views on how consistent are the decisions taken. NBR, like many other central banks maintain an opacity of decision-taking that is driven monetary policy as the most important operations in which it is implemented, in particular: how to establish key interest rate and reserve binding (RMO), and the operations of government securities.

In general, central bank officials justify their excessive secrecy in that transparency would prevent, in some cases, the effective transmission of monetary policy in the banking system and financial markets, while in others (such as emergency loans to banks in crisis liquidity) would be likely to cause bank panics and retreats, massive deposits from credit institutions "disclosed" so vulnerable

(Mosoianu; 2012).

NBR has to audit the annual financial statements, like many companies, with the help of audit companies selected through auction and paid even by NBR. Usually, they are happy to find that these statements are prepared "according to regulations". And the Court of Auditors controls only commercial operations of the central bank or the purchases of goods and services. A number of the world's central banks publish their minutes of monetary policy meetings with a certain delay, ranging from several weeks to several months. The most notorious example of this is the Fed, the Czech National Bank and also the National Bank of England, Sweden and Mexico.

4. Difficult times for leadership in National Bank of Romania

Before and during the international financial crisis, NBR has faced some important and difficult problems, watershed might say, in terms of the proper functioning of its leadership. These include: adopting the strategy of monetary policy based on inflation targeting, the speculative attack on the currency in the period 17 October to 5 November 2008 and the liquidity crisis of Romanian banks with foreign capital.

a) Setting inflation targeting strategy

Monetary policy strategy of National Bank of Romania is inflation targeting, a strategy adopted in August 2005, after a training process, concerning a functional testing framework for economic analysis and decision specific for direct inflation targeting. This type of monetary policy strategy imposes from the NBR leadership a completion of other requirements and criteria that

determines the effectiveness of this strategy:

- i. lowering the annual inflation rate below 10 percent;
- ii. gaining credibility for the central bank decisions and actions;
- iii. strengthening the independence de jure (by entry into force on 30 July 2004 of the new Statute of the NBR) and de facto;
- iv. restriction of fiscal dominance, fiscal consolidation and improving coordination between fiscal and monetary policy;
- v. ensure flexible exchange rate and reduce the vulnerability of the economy to changes in this variable;
- vi. recovery and strengthening the banking system and the relative growth of bank intermediation;
- vii. raising transparency and accountability of the central bank and the scope and intensity of communication with the public and financial markets, including issues related to the new monetary policy strategy and the preparation of its adoption;
- viii. shaping clearer macroeconomic behaviors and mechanisms of the economy needed to identify and increase the effectiveness of monetary transmission channels.

NBR leadership approaches for creating organizational and technical framework necessary for the implementation of the new monetary policy strategy lasted 16 months and received technical assistance from the International Monetary Fund and the Czech National Bank (NBR; 2005).

Inflation targeting strategy adopted by BNR is characterized by:

- Expressing the inflation target in terms of headline inflation (consumer price index), given the public's awareness and familiarity of the need to ensure transparency and credibility of monetary policy decisions;

- Setting targets as mid-points within an interval of variation (+ / -1 percentage point) in order to anchor inflation expectations effectively;
- Announcement of annual inflation targets for a longer time horizon (initially 2 years), which emphasizes the necessary medium-term perspective of monetary policy;
- Continue practicing a managed float exchange rate;
- Ex ante definition of a narrow set of circumstances ("exceptional circumstances"), independent of monetary policy, which makes the central bank responsible for achieving the inflation target;
- Setting the inflation target by the central bank in consultation with the government.

Similar experience of other central banks in the region that implements monetary policy in the context of inflation targeting strategy, the evolution of nature and values set by the central bank inflation targets so far are characterized by two distinct phases (NBR; 2012):

- step downward inflation targets set on a time horizon of two years annual figures for December (2005-2012), covering its major argument with the need to strengthen the disinflation and achieving sustainable annual rate of inflation in the medium term;
- Stage a flat multi-annual inflation targets, consistent with the definition of price stability in the medium term in the Romanian economy (from 2013) is an interim period designed to ensure the move to continue the inflation target in the long run - consistent with the definition of price stability adopted by the ECB.

- b) Speculative attack on the national currency Leu

In the period October 17 to November 5, 2008 there was an increase of the average interest rate on the interbank money market, well above the monetary policy interest rate, which led analysts NBR to say that there was a speculative attack on Leu. This attack has altered the flows of liquidity of commercial banks, thereby raising interest rates.

According Adviser to the Governor of central bank monetary policy Lucian Croitoru (Croitoru; 2012), a speculative attack on the domestic currency can be defined by a large subsequent increasing of three indicators - exchange rate, currency and net sales of foreign currency and interbank interest rate - recorded in a short period time.

The literature recommends as response to the speculative attacks on national currency the increase of the monetary policy interest rate. In October 2008, the National Bank of Romania has successfully countered the attack on the national currency Leu, extracting liquidity from the money market by selling foreign currency and not by increasing the monetary policy interest rate. This response was an example of unconventional monetary policy measure and the motivation for the central bank leadership to take that kind of response to this attack was that of maintaining financial stability and central bank credibility and reputation.

c) Liquidity crisis of Romanian banks with foreign capital

As international financial crisis had struck Romanian financial system and economy, the National Bank of Romania had to ensure money market liquidity. This objective was achieved through punctual intervention of the central bank on the money market and

by the so-called Bank Coordination Initiative in Vienna on 31 March 2009, which IMF initiated as a dialogue between the government and foreign banks operating in Romania, dialogue whose goal was to prevent closing refinancing credit lines from parent banks to their Romanian branches (Leoveanu; 2013-1). This quick response of international authorities (International Monetary Fund, World Bank and European Union through European Central Bank) to help Romania was crucial in stopping the departure of foreign capital. Banks had to intake during this period about 1.5 billion euro to their equity to be able to meet the criteria of solvency and liquidity regulations imposed by the National Bank of Romania and by international financial organizations (Leoveanu; 2013-2).

5. Conclusions

Definitely involved with the monetary issuance, in the process of lending and credit and currency control of the economy, in the currency exchange policy and other important operations in terms of credit, the central bank acquires paramount importance for the economy, especially in terms of leadership and management specific to it.

In this regard, effective decision-taking is provided by competent decisions. Top-managers should not and can not by themselves ensure decision-making and decision-making competence because they distribute the hierarchical levels through delegation and decentralization decisions.

This raises a number of issues to be considered, such as:

- Crumbled compartments and multiplying the number of management positions;
- Diluting responsibility for work

assigned personnel;

- Independence of staff and inability exaggerated its effective coordination;

- Delaying the decision making and implementation;

- The deterioration of work between bosses and executives;

- Impaired administrative inertia tasks, delays and long delays, reduced professional competence, training muddled thinking and compromise decisions.

Leadership of the central bank will have to take into account the following:

- Creative ideas emanate from individuals who know and think about solving their problem

- If subordinates participate in the development of a decision, they show greater commitment to meeting them, so it will work more on outcome

- The quality of a product produced in the group, compared to that of a product produced by an "ace" in the field varies according to the skills of group members and the information available to them, plus the degree of efficiency in the collective labor

- When a group of people is asked to solve a problem, the leader must think about their potential and their desire to solve the problem.

New concepts must be applied to develop the leaders and the managers of central banks, such as: considering a central bank as an evolving business instead of a bureaucratic institution; encouraging innovative leaders for projects that are not mission-critical and aiming to build leadership, management and technical skills thinking on people and their capabilities (Menzela; 2003).

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