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Gavrilă Pavel Radu (Bucharest Academy of Economics Studies)

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Author (s)

Gavrilă Pavel Radu
Bucharest Academy of
Economics Studies
E-mail: cartiradu@yahoo.com

Techniques and Management Policies Used by Romanian Banks in Transylvania: A Case Study of "Someșana" Bank (Solnoc-Dăbâca County)

Abstract

To thrive, the Romanian peasant needed primarily to obtain credit, especially credit on favorable terms. Romanians from Transylvania adopted a prudent policy, but one that defended their economic interests. Romanian credit institutions from Transylvania were formed and evolved in a complex financial framework. In economy of Solnoc-Dăbâca County banks were growth poles. The most representative Romanian Bank, which polarizes a lot of requests for loans from Romanian peasants, was "Someșana". Executive Director, Dr. Teodor Mihali, was a lawyer and one of the most influential members of the Romanian National Party. He was a leader of the Romanian community in Solnoc-Dăbâca County, and in Transylvania. The main policy practiced by all Romanian banks was the pursuit of profit growth and mainly the payments of dividends. The bulk of the profits made by Romanian banks are primarily divided amongst the shareholders in the form of dividends and supra-dividends. Applying the technique for banking safety, a significant percentage of the net profit was allocated to the reserve fund and the additional reserve fund. The amounts allocated for charity by the Romanian banks, amounts annually to several tens of thousands of koroane. As an important part of internal organization can be considered the use of employees, called "men of confidence", which played a significant role in very good relationship between customers and the bank. The Management for the "Someșana" Bank, as in fact most of the Romanians leaders in Transylvania, acted with intelligence to achieve a balance between the payout to shareholders, officers and community (church, school, etc.). But the greatest achievement that actually ensured the viability and vitality of the bank was creating and maintaining a strong link with its customers: the Romanian peasants. The link was not only economic but national as well.

Keywords: credit institutions, bank management, dividends distribution, Romanian peasants

JEL Classification: C58, O16, N23

Introduction

The rural economy of Transylvania and of the Romanian village began to develop only after the Revolution of 1848, after the abolition of serfdom and the transformation of the feudal estates into capitalist property. Romanian peasant was forced to move from

the closed economy of his household, to the intensive production and farming. Situation of property in land books made obtaining loans extremely difficult. Especially since the Romanian farmers were former serfs. During the dualist period, in Transylvania there was a merging of properties that created a class of Romanian peasants with

medium properties. To flourish, the Romanian peasant needed primarily to obtain credit, especially credit on favorable terms. Long-term credits are necessary for investments. At least until the First World War, agriculture remained the main economic branch.

Despite all efforts, the situation was precarious for the Romanian village in Transylvania. Trade and industry remained underdeveloped areas in the territories with Romanian majority, being an attribute of the bourgeoisie Hungarian and Saxon, protected by guild organizations. Penetration of bank capital in the economic life of Transylvanian village was ultimately the result of specialization in relations of labor in agriculture. In the credit institutions of the Austro-Hungarian Empire, their work was marked by competition between financial and banking systems of different nationalities but especially between them and the two dominant nations.

The only way to get cash was to turn to the Austria-Hungary Bank. In its work, this institution has fulfilled its mission to provide to the financial institutions in the Empire the monetary stability required for their development. This was favored by the branches of the bank that opened throughout the Empire, including Dej. Under the financial report, the Austria-Hungary Bank assured, by *resconturi* [refinancing], the cover for a huge part of the credit needs of the Empire and Transylvania. The success of monetary reform was from the success of balancing the state budget in the 1880s. The new currency was established but at half of that of traditional florin (1 fl = 2K)¹, to satisfy the Hungarians. The new system introduced gold standard instead of silver as before. Free convertibility was restored as soon as exchange reserves were sufficient.

Transylvania and the Austria-Hungary Empire: Regional situation

Hungary was a purely agricultural state. Most of the exports they sent to Austria. In a

state with strong regional structures, with different economic and cultural levels, centralization could only partially be imposed. National fight was for the regional markets, by the rules of each bank market. Economic boom of the late nineteenth and early twentieth century resulted in a strengthening of regional personalities, along with a consolidation of the economic region. Small regional centers have transformed in banking markets, consistent, organized, with goals and rivalries. Hungary had nothing to do but accept the renewal of the privilege for issuing banks. For such problems, the Transylvanian Romanians adopted a prudent policy, but one that defended their economic interests. As an expression of loyalty to the king, they pleaded for customs peace among all Austrian provinces (People Tribune [Arad], 1900).

Romanian credit institutions in Transylvania were formed and evolved in a complex financial framework in the second half of the nineteenth and early twentieth century during this period they have gravitated especially to the financial markets in Budapest and Prague. Vienna was a coveted banking center for their business relations but inaccessible and distant. Lack of sufficient capital and the competition they had to face in Transylvania led them to shape their own regional financial center. It was in Sibiu and the "Albina"[bee] Bank. The actual bank started on April 10, 1872, with a capital of 300,000 fl., Divided into 3,000 shares of 100 fl / share. For 10 years, "Albina" remained the only Romanian bank in Transylvania and Hungary. In the same period, the number of Saxon financial institutions increased from 10 in 1870 to 37 in 1880 and 51 in 1892. At the end of 1912, the Saxons had 42 credit institutions of which 23 organized as joint stock companies and 173 tours in the Raiffeisen system. Hungarian credit institutes had grown to 12 in 1870, 32 in 1880 and 67 in 1892. Of these, six were banks, 32 storage houses and 29 credit meetings (Dronca, 2003).

¹fl. =florin; currency used until the entry into service of new currency K (korona); 1fl. = 2K

Stopping for a decade the creations of new Romanian banks was due to the limited economic sphere in which they were forced to act: agriculture. Lack of sufficient capital in this area has been aggravated by the monetary crisis in 1869, followed by the crisis of overproduction in 1873 and the depression until 1880.

Banks situation in Solnoc-Dăbâca County

The geographical area where we stopped, in the interests of a particular unity of historical and administrative ties, which represents up to the Great Union of 1918 the "County of Solnoc-Dăbâca", and after the territorial and administrative reorganization following the First World War: "Someș county". I tried to show also the economic positioning for Solnoc-Dăbâca / County Someș in Transylvania economy of that period, in order to make a meaningful comparison. In the county economy the banks were growth poles. The most representative Romanian Bank, which polarized much of the credit demands of the Romanian peasants, was "Someșana". Someșana Credit and Savings Institute in Dej (Solnoc-Dăbâca) was established with a capital of 50,000 fl.² divided into 500 shares of 100 fl. The main credit for establishing this bank lies with lawyer Dr. Teodor Mihali (Tribuna review [Sibiu], 1891). Next to him was part of the founding committee: Nicolae F. Negruțiu, Vasile Pop, Ioan Welle, Gavril Stan, August Munteanu, Teodor Herman, George Gradovici, Dr. Alesandru Cherecheș and Dr. Gavril Tripon. During the year 1890, they drafted bylaws and prepared the foundation formalities in accordance with Commercial law. The General Assembly took place on March 22, 1891 and the actual activities started on August 12, 1891. Executive Director was elected Dr. Teodor Mihali and president, canon Vasile Pop. In 1895 "Someșana" increased its capital to 100,000 fl. In 1902 it increased again, to 200,000 koroane. Assets were at 1,376,051 K, reserve fund 83,400 K, deposits to fruition 502,508 K (Diaconovich, 1904).

Next we analyze "Someșana" bank management, at the start of the twentieth century. We present the bank's policy and the banking techniques used by the management. The management of "Someșana" Bank, in 1902, was formed from.

Dr Teodor Mihali-Executive director, Augustin Pinteac-accounting; Board members: (protopop) Gregoriu Pușcariu-chairman, (protopop) Teodor Herman-vice chairman, Dr. V. Ramonczai, Dr. Clemente Barbul, lawyer George Gradovici, lawyer Dr. Kerekeș (Cherecheș) I., dr. D. Ciuta; Oversight committee: A. Cosma, I. Lissai, Dr. Alesandru Pop, Dr. G. Tripon, Dr. Liviu Mikșa (Economic Review, 1902). On the board there were reelected Dr. Teodor Mihali, Dr. Demetriu Ciuta and pr. Teodor Herman (Economic Review [Sibiu], 1902). Executive Director Teodor Mihali was a lawyer and one of the most influential members of the Romanian National Party. He was a leader of the Romanian community in the Solnoc-Dăbâca County, and even in Transylvania. He had a very high position in the Romanian banks from Transylvania, and a spot on the permanent delegation of the Conference of Directors of banks, which will become Bank Union (Federal) "Solidarity".

To illustrate, we will show his political position and especially as a bank manager and his involvement at the top of the Romanian banking system in Transylvania. On February 1, 1911, in the process of negotiating an extension of privilege for the common bank, Dr. Theodore Mihali, president of the nationalist deputies from the Hungarian Parliament, addressed the parliament on these matters. He showed that PNR is adherent of common bank, arguing that the Austria-Hungary Bank corresponded to the full credit claims of the monarchy and that recently it led a fair practice in relation to all nationalities, with low interest loans, of 4 and 4, 5%. Mihali show that Romanians are proud of their connection with the Austria-Hungary Bank, thus increasing their "authority" and credit from other banks". PNR looked at the bank just like a common economic business,

²florin, coin used until the time that the korona was introduced K

“for this way they see to get their credit” Mihali's argument was weak, in the speech he stressed that “we are adherents of common bank although we are distrustful of the government”. Nationalist deputies did not take part in in 1911 at the discussion for the issuing bank, saying through their representative that “we do not take part in debates but listen with patience”(Tribuna Review [Arad], 1911). Other members of the Directorate (Board of Directors) were also important figures. The position of president and vice president were persuaded to accept two very influential figures in the local Romanian community. These were the two deans (Greek Catholic and Greek Orthodox): Gregoriu Pușcariu and Teodor Herman. And by this management option the church is involved in the good working of the credit institution. All other members of the Directorate were lawyers, actively involved in socio-economic life of Dej and its surroundings. Of them we have to mention Dr. Ioan Chereches, lawyer, involved in the banking life of Dej and he was a “Cassar” [treasurer] to another bank in Dej, “People Bank”. In the oversight Committee there were recruited very important people in the banking world. An example was Iosif Lissai, chief accountant at the “Albina” Bank Sibiu, who was a member or chairman of the oversight committee of six banks, two in Dej. The same was lawyer A. Cosma, president of the “Silvana” Bank. As such, personal relations were built that were very important in the banking world.

Profit sharing

The profit was, in 1901, K 29.468. From this sum, the amount of K 16,000 [koroane - Austro-Hungarian Empire currency] was allocated to cover dividends and supra-dividends which represent 54.3%. A significant proportion (16.5%) was allocated to the reserve fund, i.e. K 4867,10. In third place (9.2%) in the amount of K 2725,56 received members of management and supervision (auditors). Since there were 12 members, the amount is not so great, on average returning K 227,13 per person. Comparing the amount received as tantiema (bonus) by officials and the Executive Director (389,36 K and 389,36

K), tantiema (227,13 K) represent 58.3% of them. However, for one or two presence at meetings, it was a significant amount, amount that completed their income. Actually there were paying for the notoriety and reputation of the heads of the Institute, which was the underlying confidence that was regarded by customers, partners and authorities.

The trust capital that “Someșana” enjoyed was maintained by allocating a significant percentage to the reserve fund, special reserve fund and pension fund. As an image strategy and a pragmatic calculation, given the bank's customers (farmers), allocating a substantial philanthropic-cultural fund was a correct position and beneficial. Obviously, this money attracted the benevolence of church, teachers and Romanian families that had children which were eager to learn, and who received amounts between K 200 and K 1000. It made a strong link between the bank and its customers, a social and national connection, but without forgetting the economic interest: profit and dividend value. List of beneficiaries and the amount received is significant: churches (Orthodox Dej-K 1000, Greek-Catholic Beclean-K 200, and gr.cat. Ciceu Cristur-K-200), schools (gr.cat Dej-K 400, gr.cat Ocna-Dej K 200), and to the Executive Director K 336. Solnoc-Dăbâca County had 27 banks and 25 cooperative³. Banks accounted for 4.13% of the total of 654, is a place in the hierarchy of seven counties. With regard to credit unions they represented only 2.02% and were place 17. If in the case of banks the position is in the first third (of 23), so good, and a proportion equivalent to the place the county, in the case of the cooperatives, both the percentage and the place was pretty weak (Enescu I. and Enescu J., 1915).

The main banking products offered

The main product of the Romanian banks⁷ was from the beginning: *scomptul* bills, which although not the most appropriate form of credit to a predominantly agricultural people, had grown and was

³See Annex

practiced, almost without exception, by all banks. This is because the placement was a highly mobile capital. Over time, the Romanian banks started giving more attention to mortgage loans, with which they could easily contribute to improving the situation of the peasantry. They were long-term loans and therefore better suited to meet the credit needs of rural population. Other loan transactions were: "Loans on bonds *cavenți*" ("Personal peasant Loans") and "Bills of exchange loans with mortgage insurance", a kind of fixed loans, other credit types occupied, in the Romanian banks' balance sheets, only a secondary place. Relevant passive operations of the Romanian bank were Deposits to fruition, which had increased every year by several million and increased, by the end of 1903, for all Romanian banks to K 47,215,654. This considerable amount formed mainly the Romanian national capital and is a testament, both to the success of the development of the Romanian banks and on the confidence in their reliability. Interest rates charged by Romanian credit institutions were moderate. They range for the *scomptului* bills, between 5% - 8%, to which is added a certain supply, about 1-2%. Mortgage loans, bills, mortgages and loans granted on effects were given with 5.5% -8% and personal loans peasant (borrowings *cavenți* bonds), with 8%. Interest on deposits to fruition granted by Romanian banks varies between 4% -6%, plus the rent contribution of 10% (Popp, 1905). Romanian credit institutions were an important factor in the life of the Hungarian State, which contributed to their support, each year, with considerable amounts. The profit of all Romanian banks in Transylvania and Hungary in 1903 reached the amount of K 430,500,000 round (Popp, 1905).

Applied banking techniques and policies: Allocation of dividends and reserves fund

The main policy that the Romanian bank used was the increased of profit and more specific the dividend distribution. The fact that the bulk of profits made by Romanian banks are due primarily to the shareholders, in dividends and supra-dividends, is justified

by the nature of these financial institutions, based almost exclusively as joint stock companies. It would be unfair to blame for this the Romanian banks that follow a policy of collecting dividends, because, although some dividends go above 10% and even reach the 14%-18%, the average income enjoyed by shareholders of these banks, were no more than 9%, and minimal dividends have been for example in 1903, of 5%. Taking the basic amount of traffic, the market price, the return of stocks for the Romanian banking reaches only 4-5% (Popp, 1905). Applying the technique for banking safety, a significant percentage of the net profit was allocated to the reserve fund and additional reserve fund. Although Hungarian law did not require commercial joint stock companies the formation of reserve funds, as a precaution and to prepare for any eventuality, all Romanian banks, without exception, have created freely such funds, large or small, they grew, year by year, with some share of net benefits and extraordinary allowances when the general meeting decided. Reserve funds between 1898 and 1903, were, in all Romanian credit institutions, at a respectable sum of K 1.570.000 (Popp, 1905). On top of that, Romanian banks in Transylvania and Hungary have not ceased to donate, every year, large amounts of their net profit for Romanian cultural and philanthropic goals: for schools (teacher salaries, student meals, scholarships and aid to students poor, sodali and apprentices, etc.) for the building of churches, for different association and meetings (academic and literary societies, music meetings, meetings of craftsmen, agriculture, women, etc.) and other charity (funds for hospitals, popular libraries, etc.). Finally, to subsidize a publication specialized for banks, "Economic Review" (*Revista Economică*) and the printing of books of economic. The sums allocated by the Romanian banks for charity, amount annually - not incidentally aid voted for cultural purposes or in case of natural disasters (fires, floods, etc.) - to tens of thousands of koroane and reached in 5 years (1898-1903) the considerable amount of K 343,133.42 (Popp, C., 1905).

“Men of confidence” team

To increase the quality of information about customers and their assets, Romanian banks and credit institutions pursued a management technique that was very successful. As an important part of internal organization can be considered the use of employees, called “men of confidence”, which played a significant role in the very good relationship “client-Bank”. They were appointed by these institutes in the cities and rural communities of their circle of activity, in order to maintain close contact with the customer and also serve as intermediaries in loans. By their information, based on personal knowledge and fortune references of applicants for loans, these men were doing a most valuable service to the banking institutions, both at the lending and to their collection. On the other hand, thru a true marketing action, they focused the attention of Romanian peasant towards Romanian banks, convincing him that the banks were founded to meet the needs of credit and whose goodwill can always be count on in all circumstances.

Conclusions

The Austrian bourgeoisie in competition with the Hungarian one sought to dominate the financial market for Transylvania, poorly organized and lacks the necessary credit. Establishment of the Romanian banks in Transylvania was a response to economic trends of denationalization that have increased after 1867. Economic projects, up to 1918, of Romanians in Transylvania were added to the political and cultural ones. Romanian loans in Transylvania, which was granted significant national pride, especially targeted productive destinations and less the consumer. The management of “Someșana” Bank, as in fact most of the leaders of the Romanians in Transylvania, acted with intelligence to achieve a balance

between the payout to shareholders, officers and community (church, school, etc.). Using the tool of net profit allocation it managed to get the cooperation of the local and regional personalities. These were profit-sharing direct relations, with influential people in the banking system, church representatives or lawyers. But the greatest achievement that actually ensured the viability and vitality of the bank was creating and maintaining a strong link with its customers: Romanian peasants. The link was not only economic but national. The “men’s of confidence”, formed mainly from the leaders of the Romanian villages, worked flawlessly with excellent results. Romanian banks have suffered minor losses, all clients paying their debt.

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Annex

Situation of banks, cooperatives and mortgages granted by counties:

County	Banks	Cooperatives	Mortgage granted	
			Land	Houses
			Thousands K	
Solnoc-Dăbâca	27	25	18.456	2.803
Total	654	1.236	675.378	162.975