

THE BANKING SECTOR AND ITS HUMAN RESOURCE DEVELOPMENT TRENDS IN LITHUANIA

Arturas Balkevicius

Abstract

The purpose of the article is to analyse and discuss the Lithuanian banking sector, and its human resources changes and trends; disclose influence to Sustainable National Economic development.

Article use general scientific methods, especially analysis, synthesis, comparison, induction and deduction. Essential sources of information were professional publications, data of state Statistics Department, the Bank of Lithuania and the Ministry of Finance documents.

The article gives an overview of the Lithuanian banks sector and its human resources, changes and trends, analysis of the evolution, structure and their perspective, analyses a number of banks and their branches the downward causes and consequences. This paper analyses a new trend in Lithuania, to settle Technology and service centres and their development. Barclays in 2009 has established in Lithuania a strategic centre for technologies and services – Barclays Group Operations Centre in Lithuania. The US Company Western Union branch in Vilnius became the largest of its offices around the globe. Danske Bank founded the Danske Bank's Global Service Centre and Danske Bank Group IT Lithuania.

According to Danske Bank, Lithuanian human resources have perfect skills, valued 9 out of 10, most of employees have university education in Lithuania. Danske Bank has installed even two of its divisions: Global services and IT services centres.

Article examines the banking sector and its future human resource development, improvement perspective. Due to the changes in knowledge economy, the finance specialist's profession competence changes as well. Growing technology and services centres will raise the need for human resources. Finance and accounting professionals' demand will increase.

Key Word: Banking sector, Human Resources, Human Development, Economic Development.

JEL classification: J24, G14, O15.

Introduction

World is now more stable, due to better monetary management: dampened inflation and business cycle swings, globalization absorbs shocks. Rapid changes stemming from globalization, advancement of information systems and other factors have caused higher competition. Organizational performance is getting more and more important, especially in a market with greater competition and dynamic.

Human resources is one of the most important sources of today's banks and firms, for keeping the organization in the market so competitive. The ongoing globalization processes increase the value of human capital as the most essential factor of economy; thus, offering priority to human capital, consisting of knowledge, abilities and skills, against material or financial resources (Giziené, 2012). Organizations are seeking to create much competition between them, taking more market, more customers, more sales, etc. These human resources need to manage effectively to achieve the required performance of the organization. It is necessary to manage strategically the human resources and to adapt at its strategy with organizational strategy (Cania 2014). Human resource development (HRD) research could refocus its activities and move forward in an epistemologically coherent, practically relevant and impactful way, with the notion of design and by learning from developments in parallel fields such as business and management and education (Sadler-Smith, 2014). The concepts and the underlying principles of human resource development (HRD) may be similar throughout the globe, but its practice differs due to contextual factors such as culture, technology, resources and national policies (Asrar-ul-Haq 2015).

The main conclusion from the Guest, D. E. (2011) review is that after over two decades of extensive research, we are still unable to answer core questions about the relationship between human resource management and performance with any conviction, and to outline possible lines for developing research that might provide some answers.

Banks are driven by the market to set their goals in their performance. Some of the goals: cost reduction, achieving sales levels, increasing the number of customers, increasing the market percentage, improving productivity and quality, innovative products. An increasingly important role in the development of banks is attributed to intangible resources, including labour resources. They have decisive influence on market competitiveness and constitute a source of competitiveness of regions and the economy as a whole. Management performance can express as the approximation of individual objectives of employees with

organizational objectives if employees support the culture of the organization. It provides for expectations to be defined and agreed in terms of role responsibilities and accountabilities (expected to do), skills (expected to have) and behaviours (expected to be) (Armstrong, 2006). Human capital plays an important role in economic growth theory, because economic and social development of the state closely connected with investments into human capital.

The purpose of this paper is to analyse and discuss the Lithuanian banking sector, and its human resources changes and trends, their impact on the functioning of national finance labour markets, disclose influence to Sustainable National Economic development.

1 Lithuania banking sector development and trends

Due to the changes in knowledge economy, the finance specialist's profession competence changes as well. In 21st century the finance sector is no longer able to reach such a success, which was possible up to 2000, because the banks enable their customers and, competitors anytime, anywhere in the world, by just a computer mouse or smart phone click, to perform most of the finance, banking operations (Balkevicius, 2014). When Lithuania became a member European Union (EU) in May 2004 and introduced the finance sector modern supervisory system, the finance sector became more stable. From the beginning of 2008, commercial banks in Lithuania are subject to a new capital adequacy calculation requirements elaborated according to directives of the EU. An efficient banking supervision system, which complies with international practices, was created in Lithuania. Currently, six commercial banks are holding a license from the Bank of Lithuania, eight foreign bank branches (Tab. 1), and 276 EU banks providing cross-border services in the Republic of Lithuania without a branch operating in the country. All banks complied with prudential requirements established by the Bank of Lithuania.

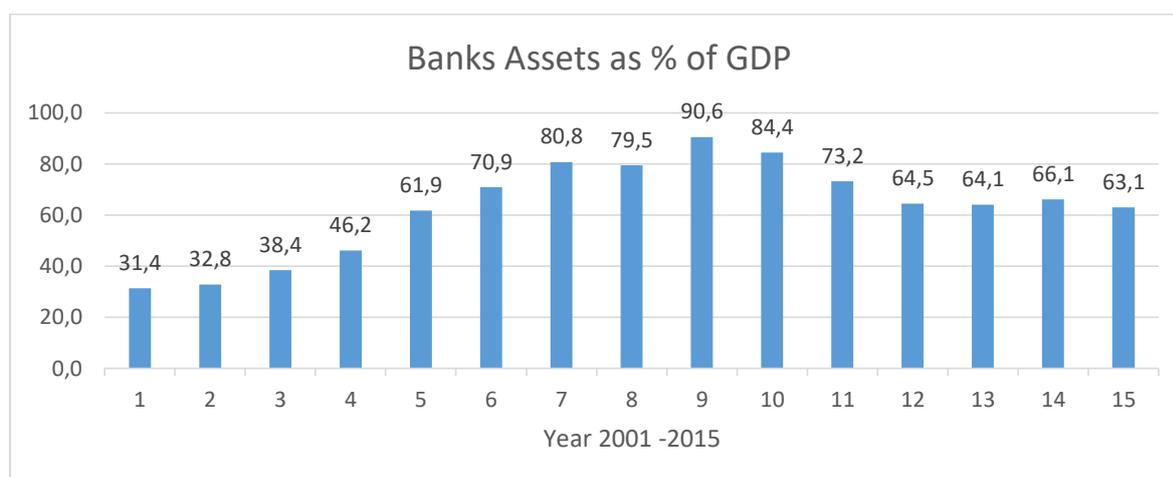
Tab. 1: Structure of the Lithuania banking system 2015

Structure of Lithuanian banking system (31/12/2015)					
	Number	Assets, EUR million	Assets, as % of financial system	Annual change in assets, %	Assets as % of GDP
Banks	14	23 414	79,2	-2,8	63,1
Banks, excluding foreign bank branches	6	19 736	66,7	3,3	53,2
Foreign bank branches	8	3 678	12,4	-26,1	9,9

Sources: Association of Lithuanian banks, Statistics Lithuania and Bank of Lithuania calculations

Scandinavian capital dominates Lithuanian banking system, as in previous periods. The banks' assets 23.4 billion Euros (Tab. 1) and are 63.1 per cent of GDP. The indicator of the country is too small for effective economic development. The analysis of the bank's main indicators in 2001-2015 (Fig.1) shows changes in Lithuania banking sector. Banks were weak 2001-2003 their assets are small, in relation to GDP (Fig.1).

Fig. 1: Banks Assets as percentage of GDP 2001-2015



Sources: Statistics Lithuania, Bank of Lithuania, calculations.

Lithuania became a member EU in May 2004 and introduce the finance sector modern supervisory system; the finance sector became more stable. The banks' assets and GDP started to grow, indicator, assets to GDP reached a peak of 90, 6 % in 2009. As result of 2008-2009 global financial crisis in 2009, GDP fell by more than 18 per cent, banks granted loans more than 15 per cent. The banks relative indicators, assets to GDP, continue to decline with the economic growth in 2010-2015 (Fig.1). Only in 2014 have slight growth of assets as percentage of GDP. Lithuania banks' assets are not adequate to economy development to compare to GDP. It is a problem of Lithuania and need a deeper research of causes in future.

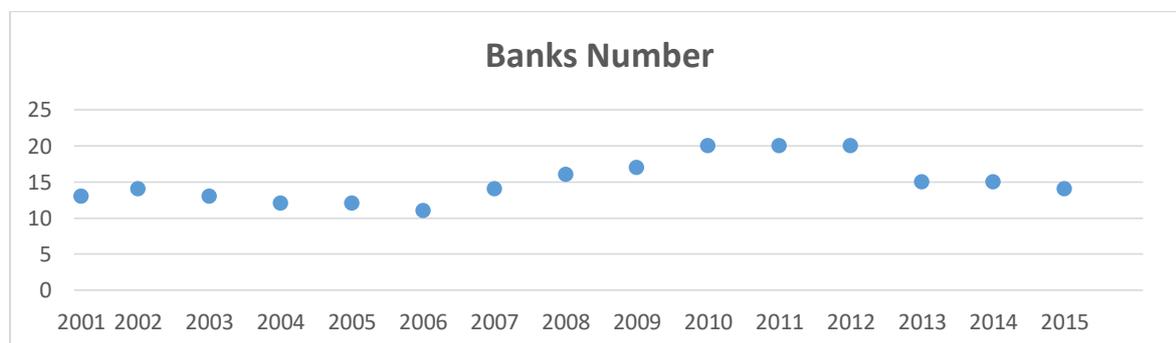
The main priority of the Bank of Lithuania in supervising credit institutions is the prevention of operational risk of banks. Taking into account the impact of the global financial crisis and recommendations of EU institutions to revise requirements for conducting stress testing in banks, the Bank of Lithuania updated and supplemented the General Regulations for Stress Testing.

The suspension of activity of AB bank SNORAS at the end of 2011 showed that the domestic banking system is ready and capable to withstand stress situations. Although the banking system declined in terms of the key assets and liabilities indicators after the

elimination of AB bank SNORAS from the group of operating banks at the end of 2011. The concentration of the three largest banks in terms of market share increased in 2011 in all market segments (AB bank SNORAS factor also affected this development). The share of the banking system 's assets held by these banks increased over the year by 8.3 percentage points (to 69.1%).

In 2012, there was a very rapid increase in deposits, and the loan portfolio significantly increased after a several years break. High capital adequacy and liquidity levels characterized all banks, except for AB Ūkio bank. AB Ūkio bank was the most active in working with clients who are non-residents among the banks operating in Lithuania. When this bank was wound up, the scope of the activities of the Lithuanian banking sector with non-residents became minimal. On 12th of February 2013, the Board of the Bank of Lithuania announced a moratorium on the bank's business and after six days, the bank de jure announced insolvent and its operating license was withdrawn. The provisional administrator proposed to the board of the Bank of Lithuania to divide AB Ūkio bank into the good bank and the bad bank. On February 22 a tripartite agreement was signed between the provisional administrator of AB Ūkio bank, AB Šiaulių bank and the state enterprise „Indėlių ir investicijų draudimas“(deposit insurance) on the transfer of part of liabilities, assets, rights and transactions of AB Ūkio bank to AB Šiaulių bank. Suspension of AB Ūkio bank activities had no systemic impact on the banking sector. The bank's interbank liabilities were insignificant, and deposits in banks remain stable.

Fig. 2: Banks Number 2001-2015



Sources: Bank of Lithuania

Seven banks and eight foreign bank branches was operating in Lithuania at the end of 2014 (Fig.2). As of 1 January 2015, the assets of the banking sector amounted to EUR 24.1 billion (LTL 83.3 billion), an increase of 7.4 per cent year on year. This growth driven by the significant amount of deposits, which flooded into banks with the approaching adoption of the euro. The assets of banks operating in Lithuania reduced somewhat in 2015; this was due

to circumstances related to the adoption of the euro. Total bank assets as of 1 January 2016 amounted to EUR 23.4 billion, a decrease of EUR 693 million (– 2.9%) over the year. The banking sector was profitable, however, income from the main business activity continued to decrease. Bank of Lithuania gave permission for the reorganisation of AB bank Finasta. The number of bank system participants decreased at the end of 2015. The reorganisation of AB bank Finasta completed, after which AB Šiaulių bank took over the bank's assets and liabilities. The Supervision Service of the Bank of Lithuania had previously approved of the reorganisation of the financial brokerage company AB Finasta by merging it with AB Šiaulių bank. Skandinaviska Enskilda Banken AB Lithuania branch was removed from the list of credit institutions. These changes related to the banking system participants did not have a significant impact on the indicators of the banking system.

We see banks' merger and acquisition processes in Lithuania AB bank Finasta and AB Šiaulių bank. AB Šiaulių bank acquisition 2013 the part of liabilities, assets, rights and transactions of AB Ūkio bank to AB Šiaulių bank. In June 2016, Danske Bank A/S Lithuania (Bank of Denmark) transferred its retail banking business to Sweden's AS Swedbank. In 2016-08-25, Nordea and DNB have entered into an agreement to combine their operations. The merger of the Baltic operations of Sweden's Nordea and Norway's DNB plan to combine their operations in Estonia, Latvia and Lithuania to create the second-biggest bank in the Baltic region. Further analysis will concentrate on the development of the most important in Lithuania banking sector human resources.

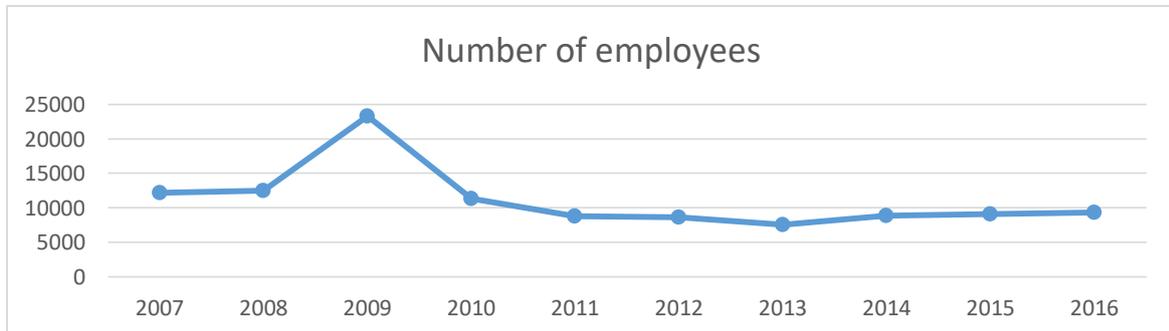
2 Human resources development in banking sector

Human resources in financial sector segments are educated, with abilities of knowledge and skills. Customer capital considered being as the key source of competitive advantage in the economy of knowledge (Cabrita and Bontis, 2008) and it is an essential element of structural fund for any kind of company, especially for the know-how companies, which include banks. The globalization processes increase the value of human capital as the most essential factor of economy; thus, offering priority to human capital, consisting of knowledge, abilities and skills, against material or financial resources (Gizienė, 2012). Human capital effects economic growth, increases advantageous national competitiveness (Balkevicius 2014).

Let's analyse human resources evolution in banking sector. We see (Fig.3) the evolution of number of the employees in banks. The number of employees in the banks

increased at economic growth and reached a maximum in 2008 in Lithuania. The crisis has significantly responded to the banking sector, workers' number in 2010 decreased by 8.7 per cent. Process continued in 2012 and employees number decreased by 24 per cent.

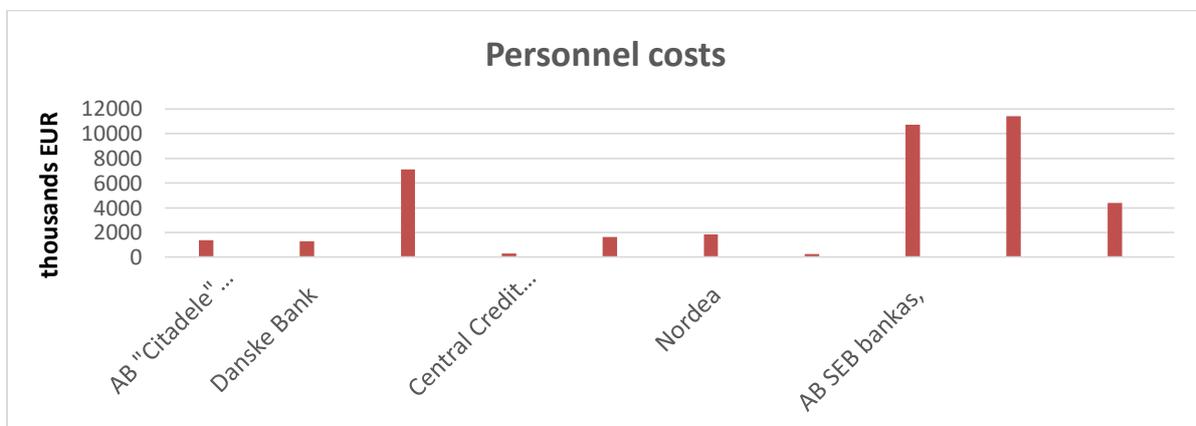
Fig. 3: Number of Banks employees



Sources: Bank of Lithuania, Association of Lithuanian banks

The crisis has had an impact on the financial sector and it forced to cut costs. One of the ways is to reduce the number of employees and their salaries. Decreasing administrative costs positively affected the profitability of the banking system. In 2015, banks managed to reduce administrative costs: staff costs decreased; however, costs related to IT projects decreased even more. Year on year, administrative costs dropped by EUR 40.9 million, of which staff costs reduced by EUR 7.1 million, while the rest of the change was attributed to the reduction of costs related to IT projects.

Fig. 4: Lithuania Banks Personnel costs

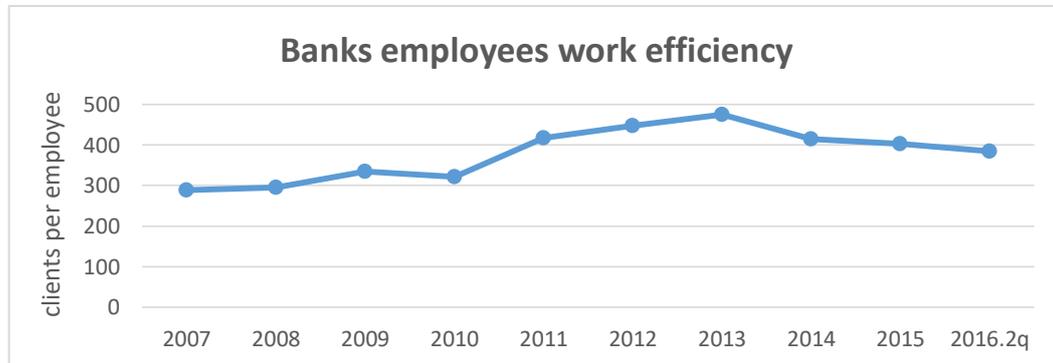


Sources: Association of Lithuanian banks

Fig. 4 see the different Banks Personnel costs. Largest personnel costs in three largest banks: Swedbank, SEB bank, AB DNB bank and growing AB Siauliu Bank. In Q1 2016 growth of wages and salaries in Banking sector was 7 per cent.

Let's examine the banking employees work efficiency change from 2007 to 2016. The number of clients owed by the employee to serve measures indicator of the work efficiency. This indicator change is shown in Figure 5. The maximum number of customers served per employee was 475 in 2013, in 2007 was 290 in 2016 the second quarter 384.

Fig. 5: Lithuania Banks employees work efficiency (2007-2016)



Sources: Association of Lithuanian banks, the author's calculations.

This is explained by IT development and staff qualifications growth.

It is observed the new trend in Lithuania to settle foreign financial institutions, technology centres, and their development. Let's see how changing human resource demand and supply.

In 2009 Barclays established in Lithuania a strategic centre for technologies and services – Barclays Group Operations Centre in Lithuania (BGOL-LT). It creates added value for Barclay's branches all over the World. It started working with 260 people in 2009 and by 2016 has reached 1,500 employees. BGOL-LT is not only a valuable partner for Barclays as a company, as well its employees participate in initiatives that help to improve education in Lithuania. Daily newspaper "Verslo zinios" recognized BGOL-LT as one of the best employers in Lithuania. The best place to work every day by offering team members broad opportunities to improve their professional and personal skills, create positive change beyond work.

The US Company Western Union branch in Vilnius became the largest of its offices around the globe. Within five years as far as the company operates in Lithuania it employed 1,604 employees it consists of 13 percent all over the world working in the Western Union employees. Western Union Processing Lithuania employed 460 people when opening a branch in Vilnius; the number of employees is constantly growing: 1,430 employees date 2015-9-28 and now 1,604 employee's date 2016-9-12. This is - good news for accountants and finance officers, for most of whom is looking Western Union. However, this is disturbing

news and Lithuanian businesses with the best employees lured offering good salaries in foreign company.

Danske Bank Lithuania is a part of Danske Bank Group - one of the largest financial service groups in Northern Europe. Danske Bank Group in Lithuania operates as Danske Bank A/S Lithuania Branch, Group Services Lithuania (GSL) and Danske Group IT Lithuania (DGITL). Group IT is responsible for development of the digital solutions used by customers and employees in multiple markets. Danske Bank Global Services Lithuania (GSL), - a global organization of nearly 1000 talented professionals and an active local market player. GSL employs more than 100 of different specialties with professionals. 60 percent of them are graduates of social sciences: management, economics, law, and finance, as well as mathematics, statistics studies. Their knowledge is successfully adapted in many different areas of financial services - the bank's private and business customer services to money laundering, sophisticated financial markets, operation and maintenance.

Danske Bank Lithuania GSL and DGITL employ 1,422 full time staff, 1,144 of whom work at the shared service centre and in IT services. Core banking activities employed 169 full time staff in November 2015. In the year 2016, the total number of employees has increased to 1900. Danske Bank will be one of the three biggest investors in Lithuania together with Barclays and Western Union service centres. It is extremely important for Lithuania that these companies have the long-term vision and create ethical work culture. Danske Bank is already investing heavily in staff development and cooperation with higher education institutions, which will have a lasting positive impact on the labour market. After all, what is a bigger asset for every company than educated, professional, motivated and thus retained employees (Němečková, 2012)?

Conclusion

Lithuania banks' assets 23.4 billion Euros are 63.1 per cent of GDP. In comparison with the EU's old Member States, Lithuania's financial sector is very small. Lithuania banks' assets are not adequate to economy development to compare to GDP. It is a problem of Lithuania and needs a deeper research of causes in future.

The new trend of Lithuania is to settle foreign financial institutions, technology centres, and their development is changing human resource demand in banking sector. Growing technology and services centres will raise the need for human resources. Finance and accounting professionals' demands will increase.

Danske Bank, Barclays and Western Union service centres are the three biggest investors in Lithuania. Extremely important for these companies in the long-term vision with regard to Lithuania as well here creating ethical work culture.

Today Lithuania is one of the fastest growing economies in the EU. Human capital effects economic growth, increases advantageous national competitiveness. Due to the changes in knowledge economy, IT we have new challenges for the banking sector workers and their knowledge.

References

- Armstrong, M. (2006). *A Handbook of Human resource management practice*. 10 th edition. Cambridge University Press.
- Asrar-ul-Haq, M. (2015). Human resource development in Pakistan: evolution, trends and challenges. *Human Resource Development International*, Vol. 18, No. 1, 97-104.
- Balkevičius, A., (2014) Baltic states banking sector evolution // *Scientific Annals of the "Alexandru Ioan Cuza" University of Iași. Economic Sciences*, vol. 61, no. 2, p. 119-131. ISSN 0379-7864. [Scopus; SocIndex; De Gruyter] [M.kr. 04S]
- Cabrita, M., Bontis, N. (2008). Intellectual capital and business performance in the Portuguese banking industry. *International Journal of Technology Management*, 43, (1-3), 212–237.
- Cania, L. (2014). The Impact of Strategic Human Resource Management on Organizational Performance. *Economia Seria Management. Editura ASE Romania*, 17 (2)373-383
- Gižienė V., & Simanavičienė Ž. (2012). Concept of human capital evaluation. *Business systems and economics*, 2 (1), 116-133. ISSN 1822-6515
- Guest, D. E. (2011), Human resource management and performance: still searching for some answers. *Human Resource Management Journal*, 21, 3–13. doi:10.1111/j.1748-8583.2010.00164.x
- Němečková, I. (2012). Education as an employee motivation and retention factor of banks and financial companies operating in the Czech Republic. *Central European business review*, volume 1, Number 1, pp. 33-37.
- Sadler-Smith, E., (2014). HRD research and design science: recasting interventions as artefacts. *Human Resource Development International*, Vol. 17, No. 2, 129–144.
- The Bank of Lithuania (2016). *Lithuanian economy review*. Vilnius.
- Statistics Lithuania (2016). *Statistical indicators to monitor economic and financial developments in Lithuania*. Vilnius.

Contacts

Dr. Arturas Balkevicius

Mykolas Romeris University Faculty of Economics and Finance Management

Address: Ateities g. 20, LT-08303 Vilnius, Lithuania.

E-mail: a.balkevicius@mruni.eu roffice@mruni.eu; www.mruni.eu