FINANCIAL SECTOR AND ITS HUMAN RESOURCES EVOLUTION IN LITHUANIA

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Abstract

This article gives an overview of the Lithuanian financial sector and its human resources, analysis of the evolution, structure and their perspective. The banking sector was most focused on, as is currently the most important financial intermediation chain, which has the highest weight in the financial sector. It analyzes the evolution of the financial sector and its human resources in Lithuanian economy recovery. This paper analyzes the financial sector and banking staff efficiency indicators and its evolution. Article examines the changes in personnel costs with the economic growth and after the crisis. It examined the financial sector and its future human resource development, improvement perspective.

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

JEL classification: G14, O15, J24.

Introduction

The last decades of the twenty first century brought major changes in the global financial dynamics. Global change forced the EU to review the cornerstones in its economic policy. Information Technology (IT) revolution, the knowledge society development, a political instability and integration trends are common factors which are causing the changes in global finance. Human capital plays an important role in economic growth theory, because economic and social development of the state is closely connected with investments into human capital. Globalization International financial stability encouraged the pursuit of new global economic growth centers. Today's situation in international financial markets, the debt problems increased by countries' monetary and fiscal decisions seeking stabilize the economic recession, (Martinaityte, Kvedaraite, 2011) the effects appear to reflect the complex cross-country relationships and the extent of financial integration. The crisis 2008 has highlighted the impact of globalization on the financial sector. The financial crisis has caused credit-worthiness, liquidity, and the dramatic downturn in equity markets were affected by the essential sectors of the economy. The article research object is the Lithuanian financial sector and its human resource development in 1995 - 2012. It analyzes the evolution of the financial sector, the aggregated parts of the structure and human resources change, examines the evolution of the financial sector human resource efficiency, workload.

The first paragraph is dedicated overview of the Lithuania finance sector evolution after the restoration of Lithuania's independence from 1991 to 2000. The financial sector there as a main driver the banking sector creates the scope of conditions for the country's economy growth. One of the main problems was quality of human resources, the lack of qualifications and knowledge of bank employees.

The second paragraph is dedicated overview of the Lithuania finance sector evolution from 2000 to 2012. Information technology advances have changed not only the bank's strategy, but also promoted the evolution of the banking system and its human capital. Human capital plays an important role in economic growth theory.

1 Lithuania finance sector evolution from 1991 to 2000.

After the restoration of Lithuania's independence (1990.03.11), we did not have own finance sector, it was necessary to solve the banking dependency issue. All credit resources generated by the Lithuanian banking system needed to be separated from the USSR central banks dependency. State banks functioned as instrument for financing central planed economy sectors. It was one functioning state insurance company. No stocks, no bonds, no leasing, no credit union, no Stock Exchange. It was a few very new (from 1988) and very small commercial banks registered in Soviet Union Central Bank. Knowledge of market economy and finance was very low. Just few specialists in all state can work with foreign payments and foreign exchange.

The Bank of Lithuania, established in March 1990. From 1990 to 1992 when Lithuania was still in the ruble zone, the Bank of Lithuania was not able to pursue an active monetary policy, and its main efforts were aimed at preparing for the introduction of the national currency. In 1992 the temporary currency, was introduced, which allowed the Bank of Lithuania to perform the functions of an independent central bank. The national currency “litas” (LTL) was introduced in 1993, triple-digit inflation was curbed and the exchange rate of the “litas” was stabilized. In July 7, 1992 Republic of Lithuania adopted the Law on Commercial Banks, which provides for a theoretical framework for the banking establishment, operation, reorganization as well as liquidation. However, open the Eastern market, the gap of high inflation led to get huge profits from trading in rubles, vouchers, and other currencies. Banking laws and normative documents were not complete and no one forced to follow them strictly, since the government allowed banks to operate even in the absence of compliance with the baseline requirements.

After the banking crisis in 1995-1996, the Bank of Lithuania has taken an important step to strengthen the banking sector control. Until the end 1995 the 15 of the registered 27 Lithuanian banks have collapsed or their activities were suspended due to liquidity problems, or other irregularities. One of the main reasons was the lack of qualifications of bank employees. The banking analysts, risk management professionals shortage of Lithuanian labor market.

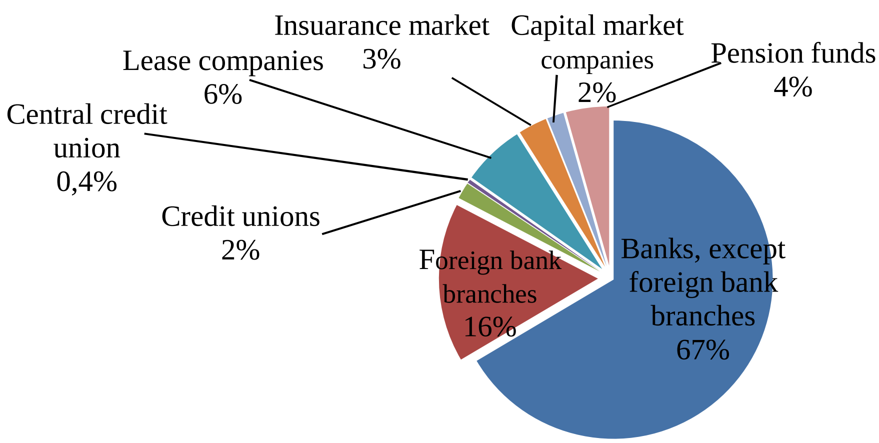
Austrian bankers’ college from 1990 had a nice mission to train the Eastern and Central European bankers. It was a very useful and important for Lithuania to improve their human resources in the financial sector. Additional support came from the Danish, Norwegian, Swedish, Italian banks, by inviting the Lithuanian banking personnel training. The Lithuania banking, insurance, and finance institute started in 1996 and help to improve the human capital in finance sector. Since 1996 all commercial banks were required to comply with International Accounting Standards and the audit report was carried out by international audit company.

2 Lithuania finance sector evolution from 2000 to 2012.

Information technology advances have changed not only the bank's strategy, but also promoted the evolution of the banking system and its human capital. Due to the changes in knowledge economy, the finance specialist’s profession competence changes as well. XXI a. banking system is no longer able to bring such a success for banks, which would bring up to 2000, because the banks to their customers, competitors enables anytime, anywhere in the world just a computer mouse click to perform most of the banking operations. Therefore, it can be said that increasing competition between banks for the creation of such banking operations, which are most convenient to the customer. Popularity of electronic commerce, the rapid development of information and communication technology developments have role in enabling of an increasing number of banks in Lithuania started to provide online banking services in the beginning twenty-first century. Customer capital is considered to be 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 financial services industry, such as banks, insurance companies. 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 (Gizienė, 2012). Within modern economy environment investment in human capital is increasing. At the state level human capital effects economic growth, increases advantageous national competitiveness. We have new challenges for the financial sector workers and their knowledge.

At present the Bank of Lithuania has licensed eight commercial banks, 12 foreign bank branches and representative offices. In Lithuania, the banks are major part of the financial system. The banking assets consists of 78.97 billion LTL (1EUR=3.45LTL), and was 74.5 per cent of GDP, and more than 80 per cent of the total financial system assets in 2011 (1Fig.)

Fig.1: Lithuania financial sector structure (at the end of the year 2011)

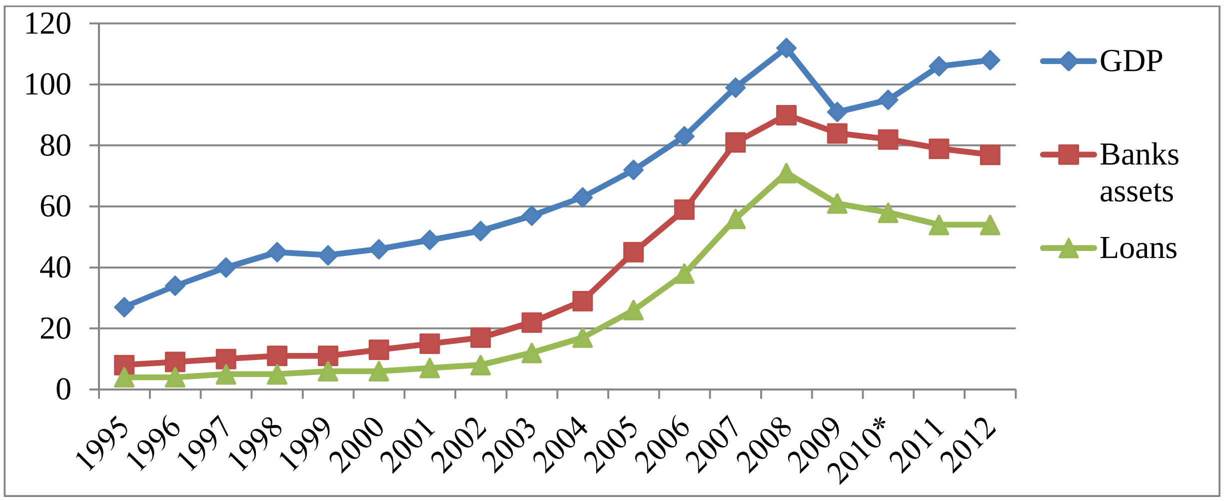


Sources: AB NASDAQ OMX Vilnius, Association of Lithuania's Banks, the Lithuanian Statistics Department, and Bank of Lithuania.

The Lithuania banks assets, except foreign bank branches, consist of 67 per cent of the total financial system assets. Foreign bank branches have 16 per cent of total financial system assets. Pension funds makes 4 per cent and leasing company makes 6 per cent. In comparison with the EU`s old Member States, Lithuania`s financial sector is very small. Lithuania financial sector assets consists 90% of GDP. Further analysis will concentrate on the development of the banking sector and its human resources.

The analysis of the bank`s main indicators and Gross domestic product (GDP) evolution in 1995-2012 (Fig.2) shows what big changes had Lithuania finance sector. GDP has increased four time, banking assets grew ten-fold. Loans increased by fifteen times. The particularly strong growth of GDP and the bank`s main indicators since 2004, when Lithuania joined the European Union (EU) membership. Economic growth in the financial sector and economic development causality and causes (Levine, 2000) is very important. It is the best visible, analyzing the correlation between the banks loans and GDP, as claimed (Kendall, 2009), but this does not apply at the time of the fall (Balkevicius, 2012) (Fig.2).

Fig.2: The bank`s main indicators and GDP in 1995-2012(billion LTL). (1EUR=3.45LTL).

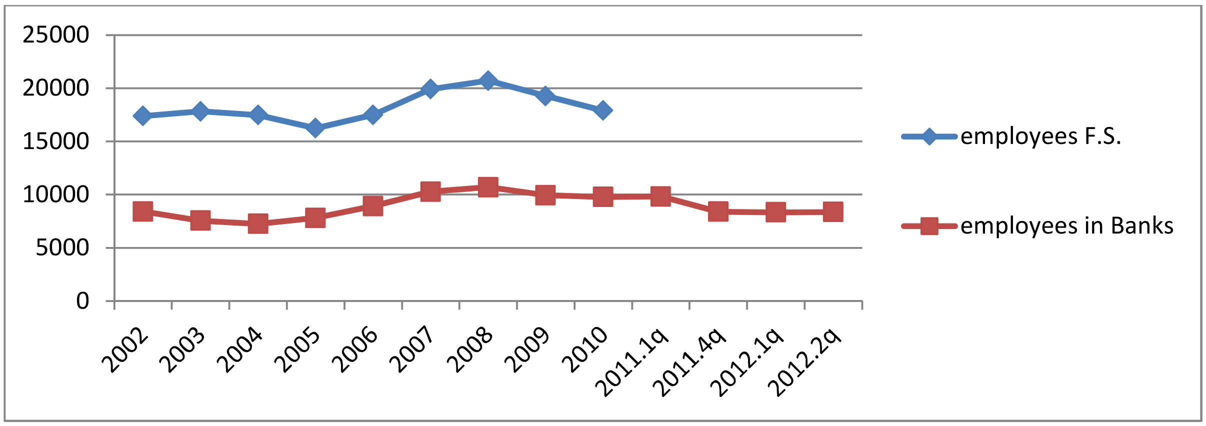


Sources: Lithuania Statistics Department, Bank of Lithuania, and the author's calculations.

In the autumn of 2008, the Central and Eastern Europe faced a global financial crisis like a fireplace (Aslund, 2011). The new ten European Union (EU) Member States from Eastern Europe faced a huge economic overheating. All new members perceived significantly increased inflation: in Bulgaria, Estonia, Latvia and Lithuania it became double. The financial crisis is already well estimated, it was a great blow on 15 September 2008, and the United States (US) investment bank Lehman Brothers went bankrupt. Suddenly the world decreased financial liquidity, and Eastern Europe faced "sudden stop" – it was left without credit, and liquidity. In 2009, GDP fell by more than 18 per cent, banks granted loans more than 15 per cent (Fig.2).

Lithuania has taken strict fiscal discipline and austerity measures. This have produced results quite quickly, in 2010 GDP grew by 3.4 percent, and in 2011 even 11.5 percent. Lithuania's economy is recovering, but the financial sector and in particular banks still not recovering. The banking assets continue to decline with the economic growth (Fig.2), loans have stabilized. Banks' profitability has returned to pre-crisis level (1.2 billion LTL). But their weight and influence in the economy decreases. This is a cause for concern.

Fig.3: Lithuania financial sector and banks employees number evolution (2002-2012)

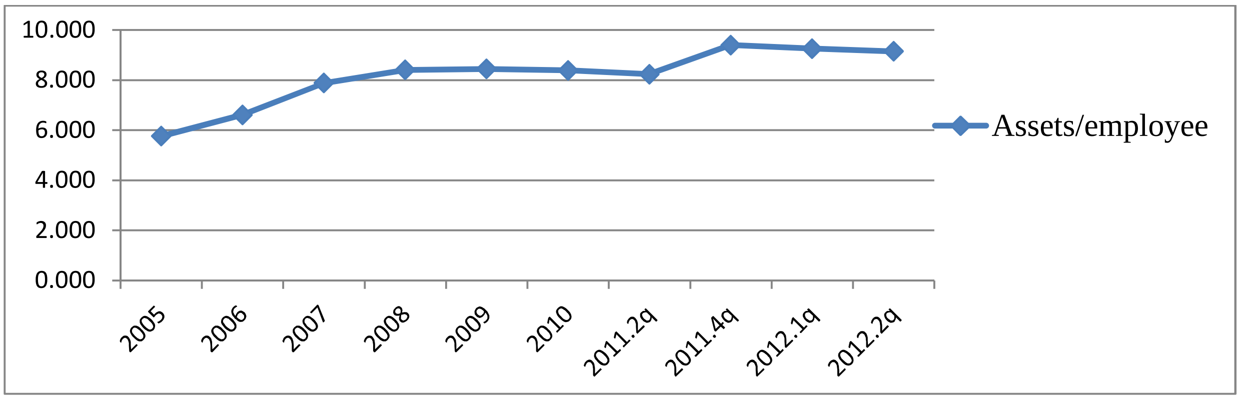


Sources: Lithuania Statistics Department, Association of Lithuania banks.

We see Fig.3 the evolution of the financial sector (F.S.) in human resources (number of employees) and evolution number of the employees in banks. Also look to the evolution of the sector's work efficiency by the indicators of banks assets per employee and the number of clients owed by the employee to serve. The number of employees in the financial sector and banks increased at economic growth and reached a maximum in 2008. The banks have 50 per cent employees of finance sector (Fig.3) and more than 80 per cent assets (Fig.1). The crisis has significantly responded to the financial sector, workers' number decreased by 13.6 per cent. Bank's staff declined slowly, but stopped the bank “Snoras” activities at the end of 2011, decreased banks staff by 1469 employees. Bank's suspension of activities have not the higher impact on the financial system, the banking assets and loans changes negligible (Fig.2). It is difficult to separate limit of permanent effects of the crisis and on the bank of suspension but it was negligible. Banks’ employees in 2012 the first and second quarter did not change significantly it was stable. Enlarged supply of professionals in the financial labor market allowed banks to improve the quality of human resources. The same time the banks increased labor efficiency (Fig.4) from 8.2 million LTL 2011 second quarter, to 9.2 million LTL 2011 fourth quarter. The same time increased the workload per employee per service the customers from 388 to 440 (Fig.5).

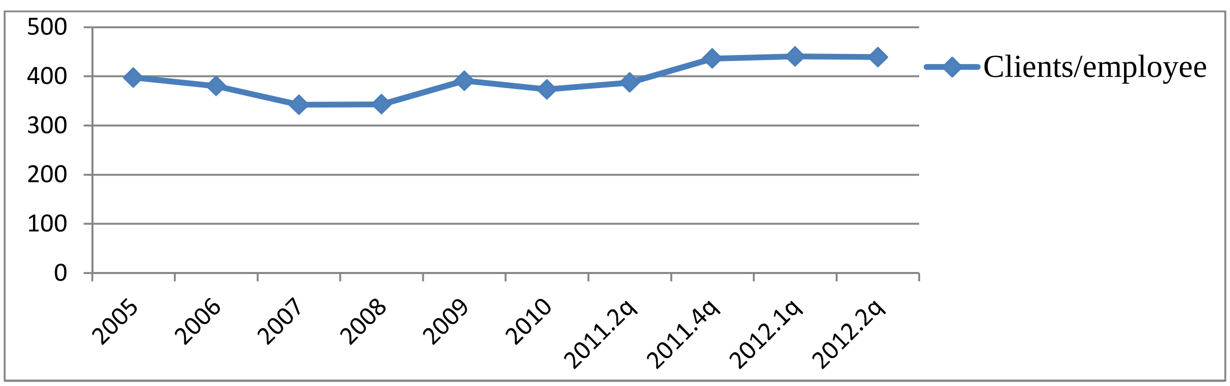
Let us examine the banking employees work efficiency change from 2005 to 2012. Work efficiency is measured in million LTL assets in respect of staff. It has increased 1.6 times, from 5.7 million up to 9.2 million LTL assets per employee (Fig.4). Another indicator of the work efficiency is measured by the number of clients owed by the employee to serve. This indicator change shown in Figure 5.

Fig.4: Lithuania banks employees work efficiency evolution (2005-2012) (million LTL)



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

Fig.5: Lithuania banks employees work efficiency evolution (2005-2012)

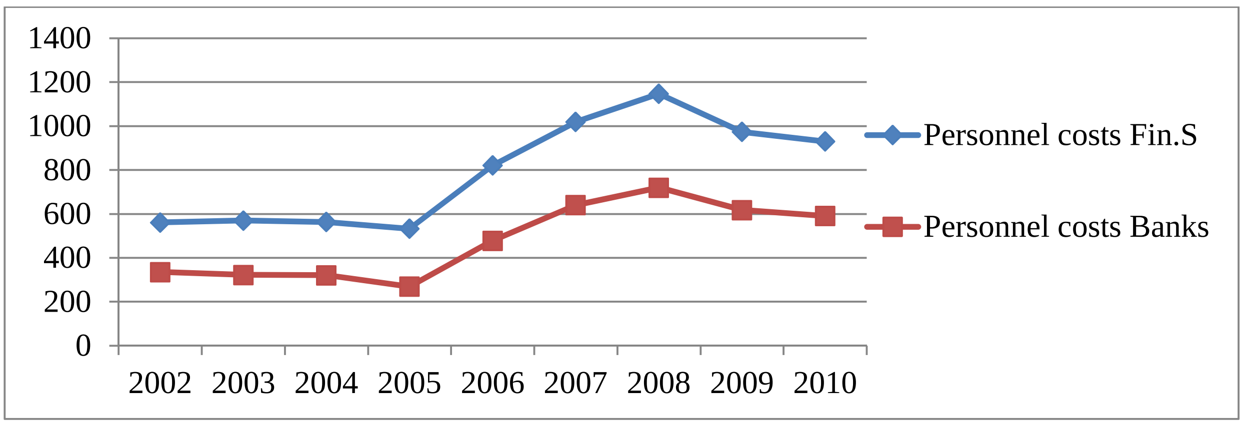


Sources: Association of Lithuania banks, the author's calculations.

The minimum number of customers served per employee 342 have in 2007 and 2008. Now, this figure reaches 440 clients per employee. This is explained by IT development and staff qualifications growth. During the economic growth (2007-2008), banking assets, profitability, and human resources grew. Now banks are looking how to reduce costs (Fig.6).

The crisis has had an impact on the financial sector and it has been forced to cut costs. One of the ways is to reduce the number of employees and their salaries. The total number of employees in finance sector decreased especially (Fig.3). The banking number of employees fell less (Fig.3) and personnel costs declined slower (Fig.6). Personnel cost curve almost echoes the GDP curve (Fig.2) in 2005-2010.The same is with banks personnel costs and assets curve. Personnel cost in finance sector decreased 25 per cent, in banks 15 per cent.

Fig.6: Lithuania financial sector and banks personnel costs (2002-2010) (million LTL)



Sources: Lithuania Statistics Department, and the author's calculations.

Enlarged supply of professionals in the financial labor market allowed banks to improve the quality of human resources and reduce number of employees. After all, what is a bigger asset for every company than educated, professional, motivated and thus retained employees (Němečková, 2012). A prevailing majority of the motivation theories were created by American psychologists (Landy, Conte, 2010). Starting from classical motivational theories, we proceed through new scientific findings to contemporary modern theories looking at a human as a scientific model. Article “Improving Employee Productivity” (Joo, Grable, 2000), conclusions is a direct link between productivity and education. Any action, that increases the productivity of labor market, may be considered as the investment into human capital.

Conclusions

Lithuania financial sector is very small. At the moment banking sector is the most important. The research results are based on the statistical data from 1995 to 2011 and indicate the financial market situation. Banking assets grew ten-fold. Loans increased by fifteen times.

Economic growth in the financial sector and economic development is best visible analyzing in the correlation between the banks ' loans and GDP. However, this does not apply at the time of the economy fall.

Lithuania has taken strict fiscal discipline and austerity measures. This have produced results quite quickly, in 2010 GDP grew by 3.4 percent, and in 2011 even 11.5 percent. Lithuania's economy is recovering, but the financial sector and in particular banks still not recovering.

Information technology advances have changed not only the bank's strategy, but also promoted the evolution of the banking system and its human capital. Due to the changes in knowledge economy, the finance specialist’s profession competence changes as well.

Within modern economy environment investment in human capital is increasing. At the state level human capital effects economic growth, increases advantageous national competitiveness. We have new challenges for the financial sector workers and their knowledge.

The crisis has had an impact on the financial sector and it has been forced to cut costs. The financial sector employees number decreased by 13.6 per cent. Personnel cost in finance sector decreased 25 per cent, in banks 15 per cent.

Now banks are looking how to reduce costs. Enlarged supply of professionals in the financial labor market allowed banks to improve the quality of human resources and reduce number of employees.

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