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Hellenic Banks and Voluntary Retirement Programs in a Crisis Period

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Abstract

The last global financial crisis has significantly changed the way banks operate. The banking industry is largely affected, facing a huge liquidity problem and large competition among many and different institutions worldwide. The Human Resource Directorates of each banking institution was called upon to take on opponent policies; reduce operating costs, satisfy employees and increase profitability. Voluntary exit programs were a new process, mainly for Greek banks, with controversial advantages for bank employees and banks themselves. The Greek banking system is one of the last banking systems to be affected by the 2008 global financial crisis. The Banks' Human Resources Directories managed to play an important role both in the followed Mergers & Acquisitions era in the financial sector and to reduce banks' operating expenses through tempting bonuses for early voluntary retirement policies.

Keywords: Voluntary retirement, Exit plans, Human Resource Directorates,World crisis impact,Systemic banks, Financial Services

Introduction

Since 2008, the global financial crisis has significantly changed the way the public and private sector functions (Markovits, Fay & van Dick, 2010). The banking industry is directly and largely affected, facing a huge liquidity problem and large competition between banking institutions. Several banks worldwide failed to remain active and either ceased to operate or was bought by more powerful groups (Correa &Iootty, 2010). Problems arising from the malfunctioning of the banking system were called upon to resolve governments in consultation with the Central Banks and commercial banks' administrations. The Human Resource Directorates (HRD) of each banking organization was called upon to take on a serious role. The purpose of the article is to examine the actual feasibility of such programs and the role they played in their operation (Kiochos & Papanikolaou, 2000).

Initially the Human Resources Directorate of each organization had little responsibility. However, with the passage of time, the rapid evolution of technology, increased customer demands and globalization, the functions of HRD have increased. Banks have placed greater emphasis on human resources and education, and the role of HRD is needed to achieve a functioning organization (Mantas, 1992). However, the economic downturn has forced banks to reduce their operating costs and Human Resource Directorates to address other issues such as finding ways to reduce their wage costs. Initially in overseas countries and later in Greece, several banks have adopted voluntary employee retirement plans, such as voluntary retirement.

Voluntary exit programs were a new process mainly for Greek banks, with several advantages for employees and organizations. However, due to the fact that their usefulness was combined with the forced reduction of staff, they left a negative impression on the majority of employees and on public opinion.

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The Greek Banking System and the Financial Crisis

All banking systems have some particular characteristics that lead them to financial imbalances. The Greek banking system was slow to be affected by the latest global financial crisis and for that reason had high capital adequacy against other countries and was not exposed to toxic bonds. Since 2004, the Greek banking system has suffered a series of blows, the main reason being the restructuring of Greek public debt, which reached 298.7 billion euros in 2009 or 12.7% of GDP (Hardouvelis, 2011).

As a first step, Greece was cut off by international banking institutions because there was a ban on cash outflows and transactions with foreign banks. At the same time, the liquidity of banks was considerably reduced, leading to capital controls and bank mergers (Chouliaras & Athianos, 2013).In the years from 2009 to 2015, banking institutions declined by half due to mergers and acquisitions in the banking sector. In addition, deposits from their customers declined by half, from € 240 billion in 2009 to € 120 billion in 2015 (Bank of Greece, 2015).

The biggest difficulty faced by banks was debt monetization, because the Greek government bonds that Greek banks had in their portfolio declined significantly due to the 2012 Private Sector Involvement (PSI). Following the financial crisis, banks 'liquidity and, as a result, their balance sheets were significantly affected, as their customers' deposits fell sharply (Konidari, 2015). The lack of liquidity in Greek banks, among other things, was also affected by the closing of the market for raising funds by issuing bonds.

Greek credit institutions re-enter the international capital markets in early 2014, but with internal and external problems that have plagued the country, the situation has remained quite difficult. The only way out was the lending and the accession of Greece to the memorandum with unbearable terms. Banks, in turn, are forced to demand reserves from the European Central Bank due to the significant decline in business and private deposits. Stock market indices plummeted, while competition among credit institutions increased.Subsequently, tax increases, employee wage cuts and continued layoffs have led to a reduction in disposable income and a failure to meet households' financial obligations and thus a breach of their debt obligations. Non-performing loans exceeded 50 billion euros in 2012.

Responsible for solving the problems faced by the country's banking institutions was the Human Resources Directoriesof each bank, where it played an important role both in the mergers of the banks and in the effort to reduce their operating expenses. In order to cope with the financial crisis, the Greek financial institutions aimed at the homogenization and redesigning of their operations, as well as in the increase of the services rendered, in order to become more competitive and to cover the larger range of their clients' requirements (Terzidis& Tzortzakis, 2004). Finally, the HRD of each banking institution aimed to develop and empower its staff through special education programs in order to remain competitive and to survive.

In the last years of the crisis, Human Resource Directorates takes on an important role because the main concern of banks is the immediate service as well as the satisfaction of their clients. Competition between banks has increased, so the HRD of each organization is trying in various ways to increase the competitiveness of the bank. This goal is achieved by the HRD with the continuous education and training of the personnel so that they can respond to any system developments (Kantas, 1998, Hatzikian, 2013).

Addressing the Crisis and the Role of the Human Resources Departments

The financial crisis in Greece is characterized as a major obstacle to the economy and the development of businesses and banks. It has led several closed companies and also banks in mergers and acquisitions. Employees are experiencing a very bad situation, either because their incomes are reduced or they are unemployed. Their psychology fundamentally changes their behavioral behavior (Konidari, 2015). Of course, the IHF of each bank should be prepared to cope with economic recessions and even better to predict them, so that they are prepared to deal with them when they arise (Hubbard& Purcell, 2001).

On the other hand, banking institutions face a serious liquidity risk because their clients do not save their money because they simply use them. Also, many who had saved them in the past rushed to get them either fearing a haircut or because of widespread economic needs. Another disadvantage for Greek banks was that their profitability began to disappear due to the rising wave of bad debts and profits before tax fell sharply (Papalexandri et al., 2012).
Therefore, in the functions of the HRD of each bank, the need for survival amidst crises is added. That is why the HRD must manage to cope with the ongoing, rapid developments of the environment.

This will be achieved with a well-informed and well-trained staff, but also with the ability to recognize the needs of its employees and to cooperate as best as possible with the European Central Bank (Papalexandri et al., 2012).

The information and training of staff, however, was not enough to keep Greek Banking Institutions competitive. They had to reduce their operating expenses and shrink. Responsible primarily for this reduction was the HRD of each bank. Each bank therefore followed its own strategy to remain credible to its customers and to manage to maintain the appropriate liquidity. First of all, it has focused on the reduction of branches and, consequently, personnel reduction and secondly on the reduction of the banking products and services provided.

Crisis response measures

As mentioned above, the agency'sHRD is concerned with reducing the operating costs of the banks, which should in the first instance create potential scenarios for the organization's performance in the midst of a financial crisis (Bowditch, 1989). These scenarios should aim to better prepare the organization for possible problems. Then, with the cooperation of the executives of each banking organization, the government and the European Central Bank, solutions can be proposed that can help improve the functioning of the banking sector and the economy of the country in general.In the financial crisis that the country went through, the HRD of each bank was first called to reduce its branches and hence its staff. So it has taken some steps to make these processes as smoothly as possible and not significantly affect the operation of the banking organization.

Initially, the HRD of each bank turned to a reduction in staff, through redundancies and secondly through the voluntary retirement of employees. At the same time, it has attempted to reduce wage costs by proceeding with reductions in compensation and benefits to redundant employees. He then turned to a reduction in the benefits of potential employees, such as private insurance, benefit, child-raising subsidies, education, and redefinition of wages.
At the beginning of the crisis, National and Piraeus Banks started a wage cut program from 10% to 20%, followed by other banks. Several banking institutions have agreed with the employees' associations on the introduction of a 4-day work or, alternatively, on a reduction in working hours, as a solution in the event of a weak salary reduction. An additional solution to reduce bank operating costs was also the voluntary exit, where each organization offered employees a compensation scheme and enough bonuses in exchange for their resignation.

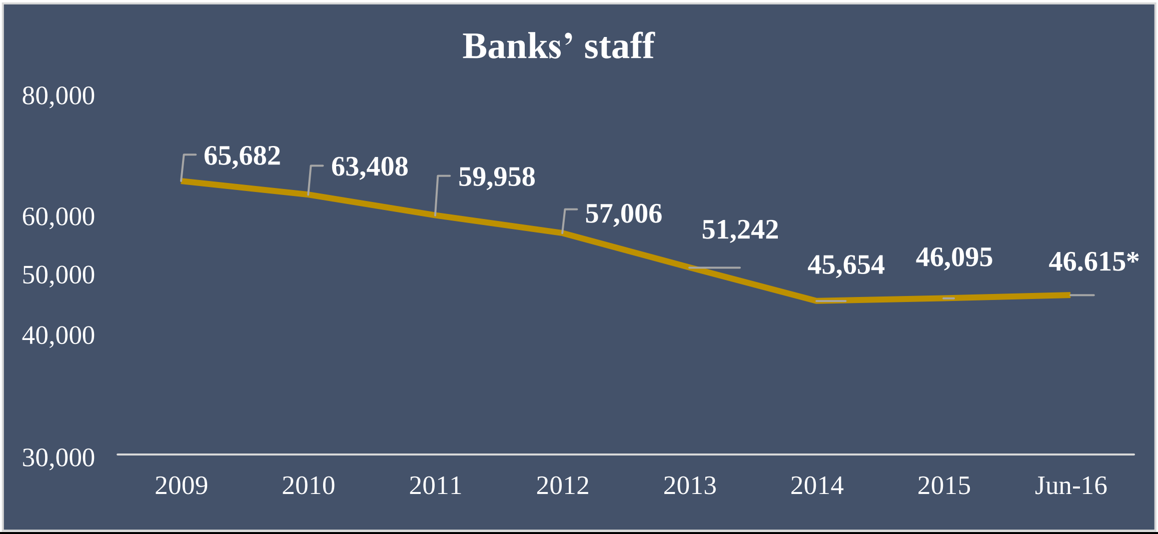
Staff reductions have led to delays in customer service. That is why the IHF was called upon to prepare the remaining employees in such a way so as to fill the gaps created by the withdrawal of a large part of the staff. This has made it almost necessary to train employees either to take on additional tasks or to take on a higher and more responsible position. If the bank succeeds in satisfying its customers through its products and services and the quality of its staff, it will remain competitive in a difficult period for the financial sector (Koussia, 2012).In situations of economic crisis, employees in banking institutions could not remain unaffected. Labor morale of employees is directly influenced by the developments in a country's economy and therefore affects the way people work and service. A worker with a higher work ethic is considered happy and this increases his productivity (Bowditch, 1989).

In difficult economic times, bank employees have a very low morale, and this contributes to pessimism and less productivity. Employee psychology is one of the most difficult tasks of the HRD which is trying in various ways to set some basic principles in the functioning of the organization so as to enhance the morale of the employees in them. So, he is planning how to keep away some of his feelings from his workforce that have a negative impact on his psychology, such as fear, anxiety, anger, trust and the feeling of injustice (van Dick, Ullrich&Tissington, 2005).

Personnel Reduction Programs in the Banking Sector

The forced reduction in the number of employees of banking institutions from 65,682 in 2009 to 45,654 in 2014 amid the financial crisis led the banks to mergers and acquisitions. The above reduction was the result of pension programs and voluntary exits (Diagram 1).

Diagram 1: Staff in Hellenic Banks from 2009 to 2016



Source: Bank of Greece. Consolidated Financial Statements of Credit Institutions

This contraction was the result of several programs that HRD had to use to reduce their operating costs. So they decided to use some pension schemes - insurance to ease the forced reduction of bank employees. But most of our country was unprecedented, which was not the case for the other countries where they used them for years now. In the midst of the global financial crisis, the HRD of Greek banking institutions, wanting to stay active, were called to reduce their staff for 3 main reasons. The first reason is that due to the long duration of the financial recession a very large part of the national income has been lost and that is why the new balance point needs to be changed. Secondly, the way banks work should be changed because the rapid development of technology and the use of internet banking have reduced the usefulness of banks' shops and counterparts. And the third reason is the need to reduce the operating costs of banks because, due to red loans, operating profits are quite limited.

Voluntary exit

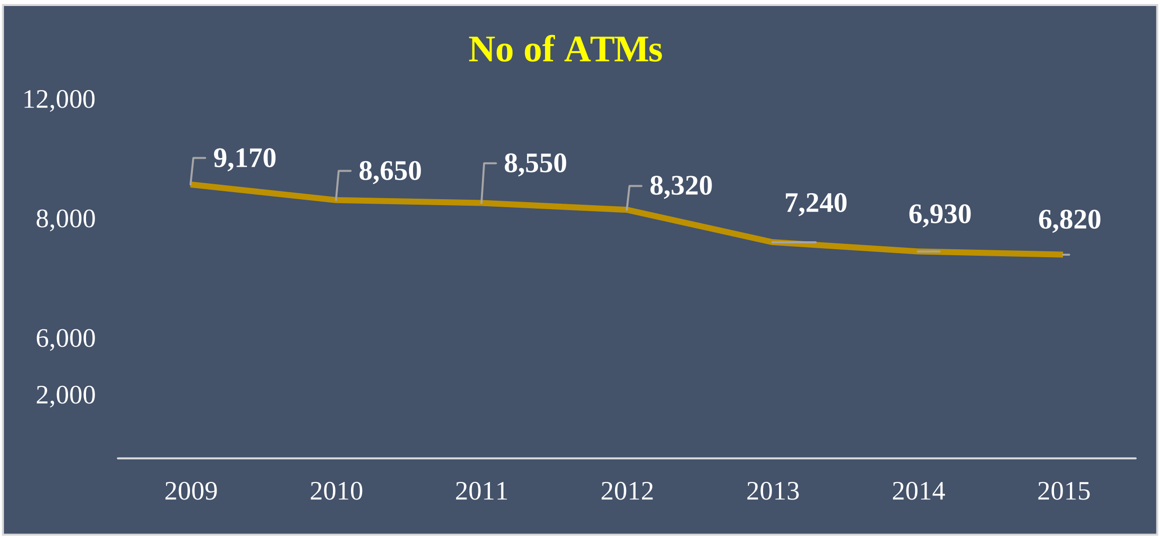
Voluntary exit is a recent phrase for the Greek people, which it used mainly in the context of economic crisis. Foreign countries have been used for many years now with the term 'early retirement incentive programs' or 'voluntary redundancy', which means early retirement or voluntary retirement in exchange for some benefits.The word "voluntary" comes from the free and conscious will of someone and can be replaced by the word "voluntary". It is mainly used by the human resources management of enterprises, whether governmental or public, and aims at reducing staff through voluntary retirement from the organization by offering some benefits. Voluntary leave is mainly targeted at employees who cannot work under pressure and people who can easily find another job or who are approaching their retirement age. It also helps companies such as Hellenic Telecommunication Organisation (OTE), who cannot lay off employees in their statutes to reduce their workforce.

An individual's decision to withdraw from work implies psychological and economic factors, either in isolation or in combination (Felps et al., 2009). In recent years, employees' retirement is a very common phenomenon because the situation in our country due to their financial crisis affects negatively and creates insecurity and anxiety. In addition, the pressure they receive from their superiors due to their increasing competition has prompted several resignations. On the part of the employer, the majority of Greek Banking Institutions applied voluntary redundancy to reduce their operating costs with enough bonuses for employees who wanted to leave.In Greece, several were the companies that used the voluntary exit program with leading banks. Piraeus initially used a tempting program for its employees, where they could interrupt their contract with the bank for a period of three years and then return to their jobs again. Alpha Bank, which recently entered voluntary redundancy programs, voted in 2014 to help cut its staff by 15%.

On the other hand, several institutions have approved voluntary retirement schemes, but these were not feasible. The Hellenic Post Bank (TT) Board has voted a bonus program for 150 employees, but this has never been implemented.

As mentioned above, from the beginning of the global financial crisis until 2016, there was a significant fall in the number of Greek bank employees due to the voluntary exit and the number of their branches and ATMs, which we see in the following charts. Diagram 1 showed the changes in bank staff from 2009 to June 2016 where it was noticed a fall of about 20,000 banks' staff. Diagram 2shows the dramatic decrease in the number of ATMs.

Diagram 2: ATM Number of Greek Banks from 2009 to 2015



Source: European Central Bank, Payment Statistics for 2015, 26 September 2016

Most exit programs for employees of Greek banks have been successfully completed. However, the voluntary retirement plans announced in 2018 may be the last, because according to information, a law authorizing the dismissal of bank employees was passed. Additionally, several analysts argue that the interest of employees in such programs has been saturated, so the banks' HRD is looking for alternative ways to reduce their staff.

The aim of the banking institution and the European Central Bank (ECB) is to leave even 10,000 bank employees by 2020 and bank branches to drop from 1,200 to 1,300. Digital technology, which has gained quite a lot of ground thanks to the imposition of capital controls, contributes to this. Nowadays, banking is used by a very small number of customers, especially at the end of the month, so a cost base is needed, the shrinking of stores and the reduction of bank employees.For bank employees, banks' HRD are planning two-year outsourcing programs. Through these programs, banks will somehow release their employees and then hire them through other companies and use them as external partners.

In recent years, with generous voluntary retirement plans, a fairly large number of older employees have left the banks and this is forcing banks to use retirement plans that will be tailored to employees of bank groups with much lower compensation. In March 2016, in a Piraeus Bank voluntary exit program, the average age of employees applying for immediate retirement was 46 years.

With the simultaneous development of e-banking and the recent mergers of banks, systemic banks will not be able to use all the staff they have accumulated over the years. For example, Piraeus Bank, by the end of 2018, has set itself the goal of converting about 35 million transactions made by banks into online transactions. The HRD of each organization will be asked to think about ways to reduce its staff. This reorganization will help enough, voluntary retirement programs such as voluntary retirement.

Comparison of Programs of Voluntary Output of Systemic Banks

Comparing the program of the voluntary exit of the National Bank (Ethniki)with that of Piraeus Bank it was observed that the two banking institutuions followed similar tactics. This is obviously because they are getting several orders from the European Central Bank about how they work. In the case of the latest financial crisis, the ECB gave clear instructions on the necessary reduction in bank operating costs.

The first National Bank's program to tackle the financial crisis was launched in December 2013. It was divided into 4 sub-programs and had as an incentive for employees a financial compensation amounting to 170,000 €. Due to the economic downturn, the National Bank Group (NBG) has bought several banks like FBB and Probank, increasing both bank branches and employees. The program therefore aimed at the voluntary retirement of 2000 employees. Accordingly, the first program for Piraeus Bank was launched in early 2014 following the absorption of the General Bank. The PIRA's plan was the closure of 20 branches and the establishment of 120 ATMs in the Greek territory. The maximum amount of compensation in this case was € 170,000, which the ECB may have set aside.

The second-in-line voluntary exit program for the National Bank was launched in 2016 and was a little more complicated than the first. He had plenty of choices for anyone who wanted to leave, and he also provided him with health care or insurance coverage. The maximum financial ceiling reached 180,000 €, which exceeded the highest amount of the previous program. The goal of National Bank's executives was to end in 2016 with 12,000 employees and less operating costs. The innovation for National Bank was that for meritocratic reasons the staff assessment was given to an independent management authority. On the other hand, Piraeus Bank in March 2016 followed a similar program to the previous one, wanting to further reduce its stores. Its new goal was to maintain 650 stores with 18,000 staff. Observing the course of the two banking companies, we can see that the employees of Piraeus far exceed the number of people working for the National Bank.

The third and perhaps the last program for both banks were launched in early 2018. National Bank officials were counting on this program to reduce their staff by the end of 2018 to 9,950 and to sell National Insurance. The highest allowance remains at 180,000 euros, according to a decision of the bank's executives in consultation with the ECB. Piraeus Bank executives plan for the Bank's third voluntary retirement plan is to reduce staff from 13.253 by the end of 2017 to 11,850 by the end of 2018. Piraeus Bank's third program enabled employees to choose how they would leave between 3 subprograms with enough big bonuses. It was considered by the most favorable volunteer exit programs and perhaps the latter, which was why it had a huge impact on the employees of the bank.

Observing the plans of the two banks to tackle the financial crisis uniformity is noticed. The upper limits on financial compensation range from € 170,000 to € 180,000 for both banks, while their common goal and the ECB's requirement is to reduce their operating costs, mainly due to a reduction in staff and their stores. One of their differences is that in the first voluntary retirement plan, the National Bank classifies its employees according to their past experience, duties and bank, while Piraeus Bank sets as criteria the age and service of its employees. Piraeus Bank also gives its employees the opportunity to choose among several subprograms the one that is closest to their requirements as well as the choice with the completion of some sub-projects to return to their duties.

From the above it can be concluded that the programs of voluntary exit, although new, had a great impact on the employees of the Greek banks and other enterprises. This is evidenced by the large involvement of employees and their adoption by many organizations amidst financial crisis. Responsible for these programs is the HRM Department of each organization that designs and implements each new program to cope with the difficulties of economic recession. The voluntary exit of employees, although it was an innovation for Greek standards, is shown by the figures mentioned above and has been crowned with tremendous success. Maybe because it was something new for Greeks? Maybe because it had several advantages for the employees? Perhaps why was it used instead of regular layoffs? Perhaps because the banks had no other choice because bank employees of indefinite time could not be laid off under a law? Whatever the truth, the result was positive for Greek banks because they were able to meet their targets to reduce their operating costs.

Conclusions

The new role of the HRM Department was not so easy because it was called upon to address several problems that were faced by the Greek banks. All the new problems, coupled with the pressure and the need to reduce operating costs, led to the use of unprecedented methods for Greek data in order to reduce the existing staff as well as the branches of each group. The branches closed one after the other and were limited enough. On the other hand, the reduction of staff was a serious problem for the banks because they were forbidden to lay off for employees of indefinite duration. For this reason, the HRD of each bank had to find other ways to reduce staff. Adopting methods that banks and overseas companies have followed for years, they have come to use some new programs, such as those of voluntary redundancy. These programs, however, have created several problems in the psychology of bank employees, who were called in a very short time to choose their career path.

A large proportion of employees, mostly older, chose to use a voluntary retirement plan and leave their work, earning some benefits and money. The staff in the banks have been downgraded enough to make a heavy vestige available to the remaining employees.

This experience was unprecedented for most employees, and the uncertainty about what they would follow would affect them every day. Their interest in work was limited to the moment when their competencies increased due to lack of staff. Several were forced to change a department or store, causing internal upheaval until they manage to cope with the new situation.On the side of bank managers there was confusion. On the one hand, they had largely managed to limit banks' operating costs; on the other hand they had to deal with the bad psychology of the remaining employees, as well as the forced loss of competent executives who chose to leave using the voluntary exit.

Finally, comparing the staff reduction programs used by two large banking groups, Piraeus Bank and the National Bank, we can see that in both cases they have had tremendous impact on staff. Employees of all ages preferred to leave the world's financial crisis by their work either because they wanted to change an employment sector either because they felt useful money and the benefits offered to them by the banks or because they did not withstand the great pressure they had had been practiced because of the situation and the great competition, either because they were close to retirement age, so the bonuses of early retirement were quite tempting.

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