

## BEING CAREFUL WITH BUDGET CUTS

by [Steve Brown](#)

A tight business environment and sluggish economy have led many companies to cut budgets. These factors have also been one reason many college graduates are in jobs that don't fully utilize their education. In fact, new research from

Accenture finds 41% of workers who graduated from college in the past 2Ys say they are underemployed, as they are working in jobs that do not require their college degrees. What's more, nearly 63% of those interviewed say they will need more training in order to get their desired job.

The slowdown in financial services has certainly dulled the pace of hiring even more than other industries perhaps, but community banks still need to hire good workers and retain existing ones. To motivate and cultivate existing employees, bankers have to be proactive and imaginative. Low interest rates are leaving bank earnings under pressure, so there's an even greater need to find creative ways to drum up morale, without breaking the bank. After all, research shows happy employees are more productive, which benefits both employees and banks.

As you seek out ways to keep employees energized, know that a new survey by the American Psychological Association (APA) finds more than 33% of workers experience chronic work stress. It also found contributing factors include low salaries, a lack of opportunity for advancement and heavy workloads. Further, the effects of the Great Recession seem to be lingering, as many employees also report feeling stuck. Only 39% cite sufficient opportunities for internal career advancement and just over 50% say they feel valued at work.

There is, of course, no cookie-cutter approach to creating a healthy work environment but the APA focuses on five broad categories. These are: employee involvement, health and safety, employee growth and development, work-life balance and employee recognition. Our advice is to take a hard look at current practices and see where improvements can be made in each of these areas to jumpstart your employee engagement.

Another area to monitor, as evidenced by the 2012 National Study of Employers, relates to two broad emerging trends. The first is that since 2005, an increasing percentage of US employers have offered flex time to at least some employees. For community banks that haven't yet gone this route, there are various publications out there—some free, some not—to help you get started. The second takeaway from the study is that flexibility around reduced time, caregiving leaves and flex careers has declined since 2005. For banks, perhaps offering these types of programs will give you a competitive advantage when it comes to attracting and retaining employees. Both of these trends cost money and the environment is certainly difficult, so tread carefully and be sure you have thoroughly discussed the cost-benefit.

The good news is that a healthy work environment is good for the bank. Studies show companies with healthy work environments have lower turnover rates, experience less chronic work stress and have employees who are more satisfied with their jobs.

It goes without saying that banks are under enormous pressure to produce earnings that satisfy the expectations of management and shareholders. That said, earnings are supported by employees so

the two go hand in hand.

## ECONOMIC PREDICTION

The chief economist at FNMA projects GDP will be 2.2% in 2013, as the second half of the year is stronger than the first half (due to lower unemployment and higher consumer spending).

## BANK NEWS

### **M&A**

The low level of interest rates and high cash levels are driving banks and other companies to repurchase stock and pay dividends rather than merge, a primary reason M&A activity remains low.

### **Farm Lending**

The Department of Agriculture predicts a 25% decline in farm profits in 2014, as commodity prices flatten and exports decline.

### **Vacation Homes**

The National Association of Realtors reports vacation home sales climbed 10% in 2012 vs. 2011.

### **Less Borrowing**

The latest data from the Fed finds credit card balances decreased 2.4% in Mar. vs. Feb.

### **Changing Times**

A survey by FindABetterBank finds 53% of people say they would not consider banking with an institution that does not have a physical branch, but the same percentage also say they can imagine a time in the future when they would be comfortable enough to do all their banking virtually.

### **Bank Priorities**

A study by Aite Group finds the top 3 priorities for financial marketers this year are growing the loan book (37%), cross selling or deepening relationships (24%) and customer acquisition (11%).

### **Small Biz Competition**

The latest analysis from Biz2Credit of companies applying for loans of \$3mm or less finds the approval rate for banks with assets above \$10B has jumped 59% in the past year to nearly 17% overall. That compares to a rate of about 51% for community banks, but shows large banks are actively making a push to capture more small business customers. Experts say changes in capital requirements due to Dodd Frank and a special program launched last year with the SBA (13 big banks agreed to lend \$20B to small businesses over 3Ys) are key reasons.

### **Customer Turnover**

About 56% more small business owners sold their businesses to someone else in Q1 vs. the same period last year, according to analysis by BizBuySell.com.

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