

Chapter 6. Executives Pay

1. Wages in the Greek business sector

Since the early '80s, the average real compensation of labour (wages plus benefits plus social security taxes per employee) in the Greek business sector has oscillated around a long-term stationary trend located at the low level of 1983 (Figure 1). During the boom years 1994-1999, a 15% increase in the average real compensation offset the decline of the recession years 1990-1993. After this correction, the average real compensation of labour exceeded its long-term stationary trend by 10%.

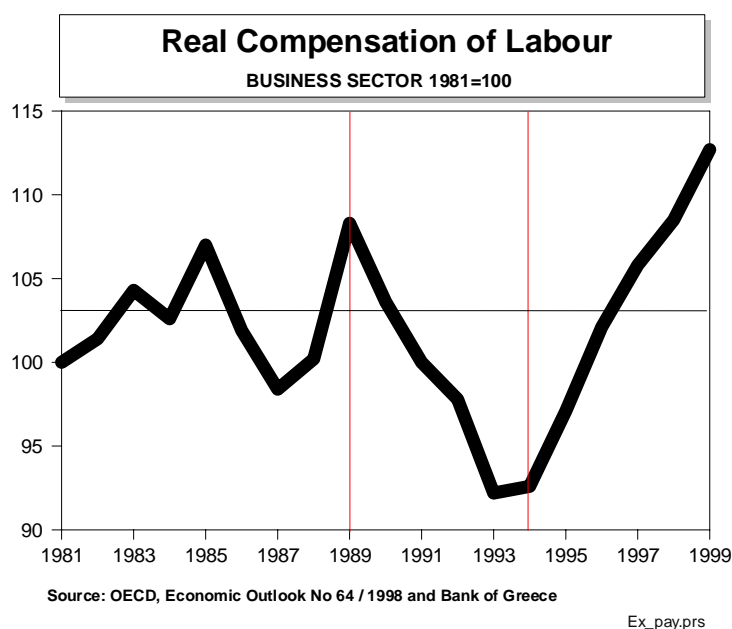


Figure 1

As indicated in Figure 2, since the mid '80s, there has been a significant change in the average real compensation in the Greek business sector as compared to the corresponding compensation in the European Union:

- From the beginning of the '70s up to 1985, the average real compensation in Greece oscillated around a stationary trend placed at 52% of the average real compensation in the EU.
- Since 1986 and for a decade the trend shifted downwards to the level of 45%. However, since 1995 the real compensation in Greece is increasing and approaching the level of 50% of the average EU compensation. Since this rise is partly due to the overvaluation of Drachma during that period, it does not

correspond to a substantial rise in the purchasing power of wages (it is only imported goods that become cheaper).

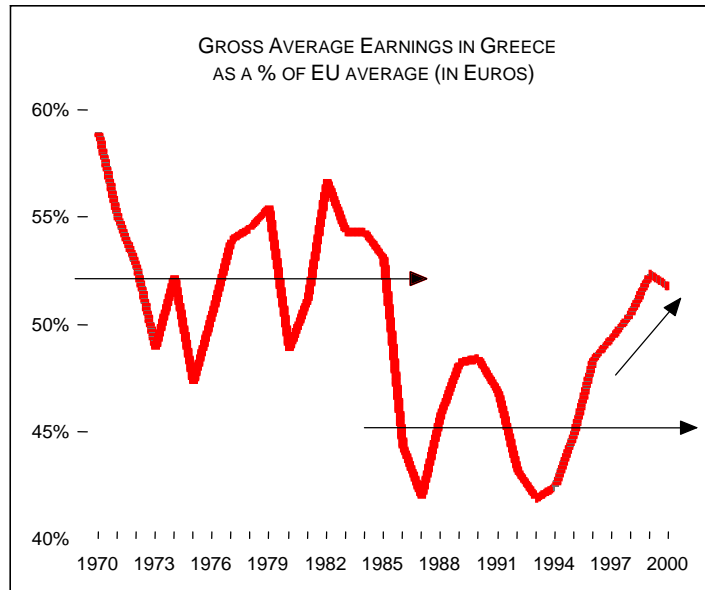


Figure 2

2. Wages in the Financial Intermediation Sector

Real compensation in the financial intermediation sector followed the general increase of wages during the same period (1995-2000). Moreover, the rise was bigger than the average Greek wage: it was 20% approximately in the banking sector versus 15% for the business sector.

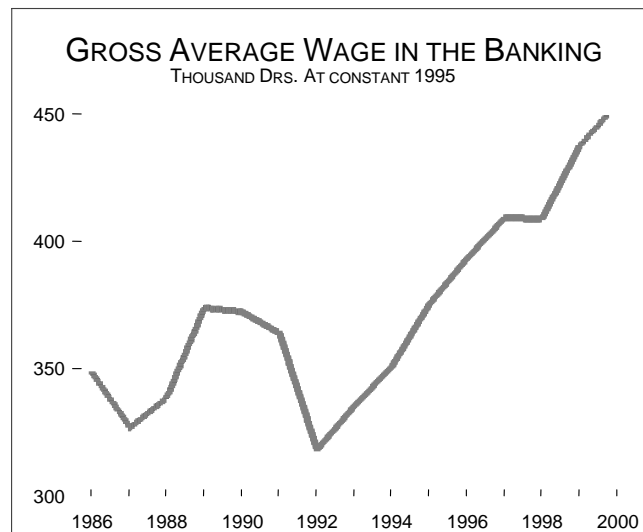


Figure 3

A comparison of labour compensation between European countries is possible on the basis of data from Eurostat and the [Industrial Relations Observatory](#) (EIRO). Wages are compared as labour costs on the one hand and as purchasing power on the other. Available data are for Germany (western and eastern part), France, Spain, Britain, Finland, Greece, Belgium, Denmark and Luxemburg. The most recent data is for the year 1998, but estimations for 1999 are possible on the basis of EIRO information.

There is a lot of uncertainty surrounding comparisons of labour compensation between different countries, since data is often imprecise, important national differences in the wage formation process exist, different taxes are imposed on labour earnings and different statistical methods are used. Nevertheless, the gap between labour compensation in Greece and the EU average is so large that any statistical uncertainty is negligible.

2.1. Labour cost (wages in Euros)

Gross average earnings in the banking sector are included in the *Earnings in Industry and Services* detailed tables of Eurostat, containing information on labour compensation in Euros and in Purchasing Power Parities.

Enterprises are concerned with labour compensation in Euros at current prices as an element of operating costs. The most recent data from Eurostat is for the year 1998. Our estimation for the year 1999 is based on data from EIRO.

It follows from the comparison between European countries that labour compensation in the Greek banking sector (in Euros at current prices) is the lowest in the EU. Although there are no data for Portugal, it is widely known that wages are even lower there.

In 1999, Denmark, Luxemburg and Britain had the highest average labour monthly compensation (in Euros at current prices), and Finland, Spain and Greece had the lowest.

Divergence between countries is considerable. In comparison to other countries, the average labour compensation in the Greek financial intermediation sector in 1999 was as follows: **52%-59% lower than in Denmark, Luxemburg and Britain, 40%-45% lower than in Belgium, the western part of Germany and France, 27% lower than in Finland and the eastern part of Germany, 16% lower than in Spain.**

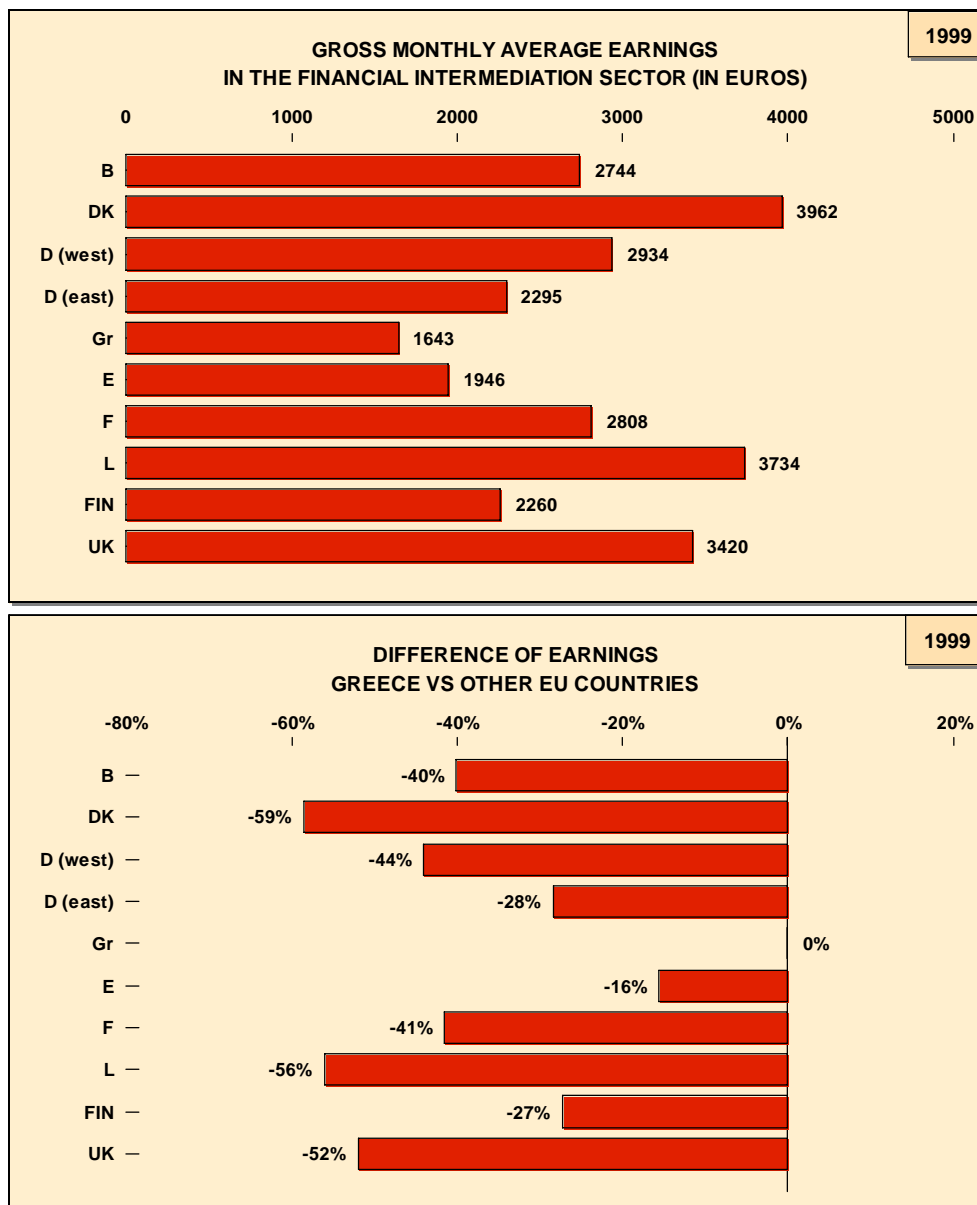


Figure 4

Read the above graphics as follows: The Gross Average Earnings in the banking sector in Greece, in 1999, were 16% lower than in Spain, 27% lower than in Finland etc.

2.2. Purchasing Power (Wages in PPP)

Wages are income for employees. That is why they are interested in a comparison of labour compensation between European countries in terms of purchasing power, that means in Purchasing Power Parities, since the comparison has to take into account the differences in price levels that prevail in different countries. Generally, the lower the GDP per capita, the lower is the level of prices. The purchasing power of 1 Euro in Greece is 25% higher than in the EU on average.

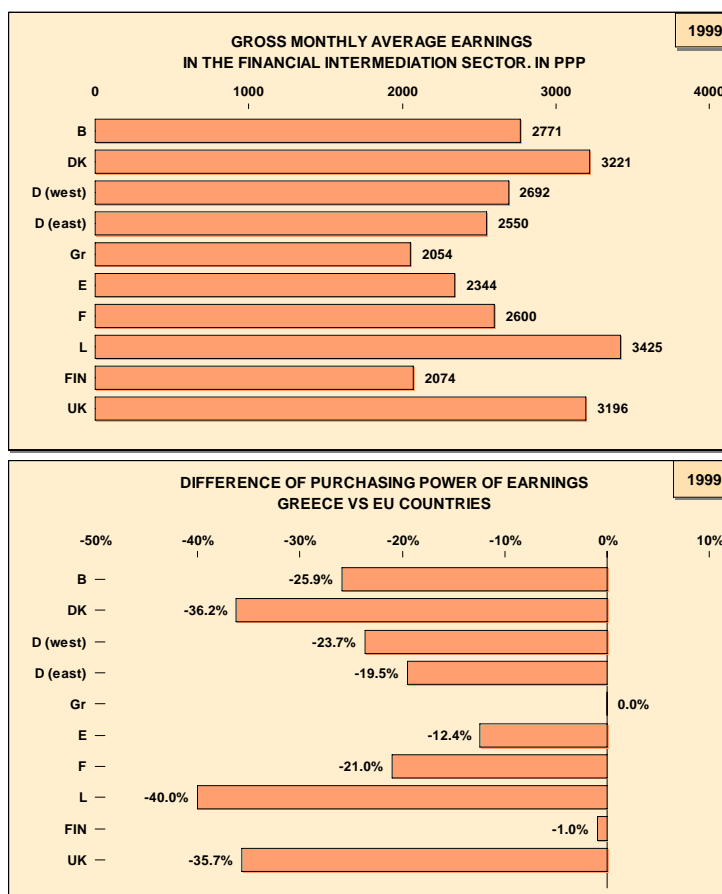
It follows from the comparison of labour compensation in the financial intermediation sector between EU countries that the purchasing power in Greece is the lowest in the European Union (except, perhaps, Portugal). The differences in purchasing power parities between countries are smaller than in Euros: the purchasing power of the average labour compensation in the Greek banking sector, in 1999, was **35%-40% lower than in Denmark, Luxemburg and Britain (versus 52%-59% in Euros), 20%-25% lower than in Belgium, Germany and France, 12,5% lower than in Spain and almost equal to the corresponding purchasing power in Finland.**

It is worth noticing that the gap in wages between different occupations is very large in Greece (see Figure 8). That means there is a large part of employees in the Greek financial intermediation sector having wages of very low purchasing power. In the case of a teller, for example, the average gross annual earnings in 1998 were approximately 10 thousand Euros; that gives a purchasing power of 12500 Euros at average European price levels.

2.3. Unit Labour Costs and Profits

Concerning comparisons of labour costs between European countries, differences in productivity of labour in the banking sector have to be taken into account, so that labour cost is estimated per unit of product.

Figure 5



Read the above graphics as follows: The Gross Average Earnings in the financial intermediation sector in Greece, in 1999, were 12,4% lower than in Spain, 1% lower than in Finland etc.

The labour cost (measured as the monthly average gross earnings in Euros at current prices) in Greece is much lower than the EU average. Nevertheless, in the case of the financial intermediation sector, productivity of labour is 20% lower than the EU average. That gives a unit labour cost that is among the lowest in the European Union, albeit not the lowest (Belgium, Spain and Luxemburg having the lowest Unit Labour Cost).

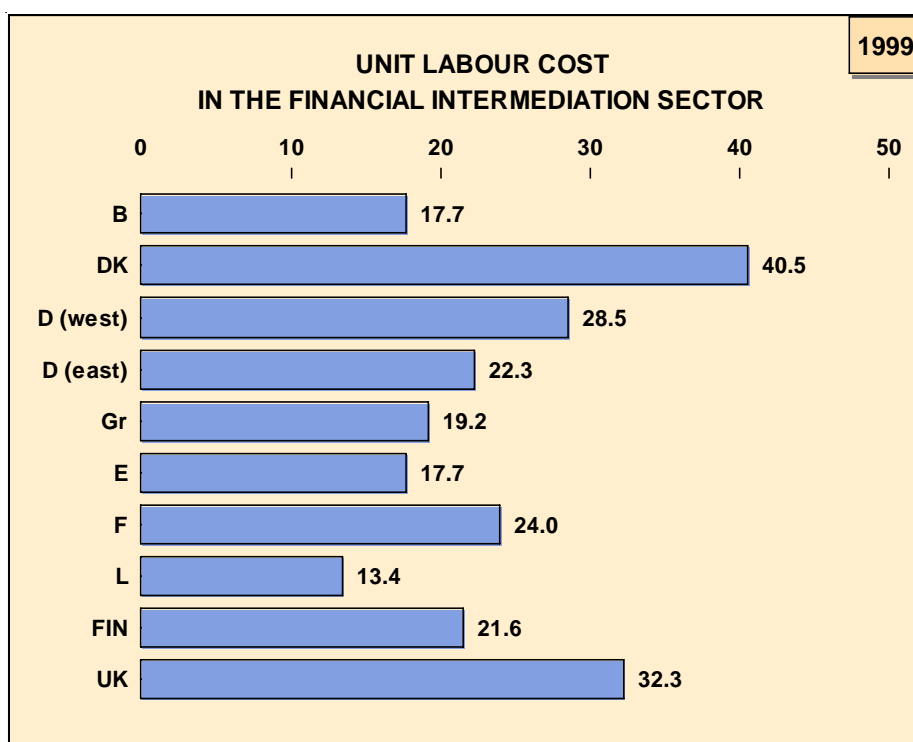


Figure 6

Since there is a lot of uncertainty in international comparisons of labour productivity, and consequently of Unit Labour Costs, it is useful to complement the comparison between European countries with profitability data.

According to most available data (*Special Feature on Banking*, Eurostat, Edition 2000), the rate of return on equity in the Greek banking sector was among the highest in European Union. Net Profit as a percentage of Equity in Greece is 5% higher than the EU average. It is only one country in the EU, Finland, where banking profitability is higher than Greece. In Belgium and Denmark, profitability is comparable to profitability in Greece.

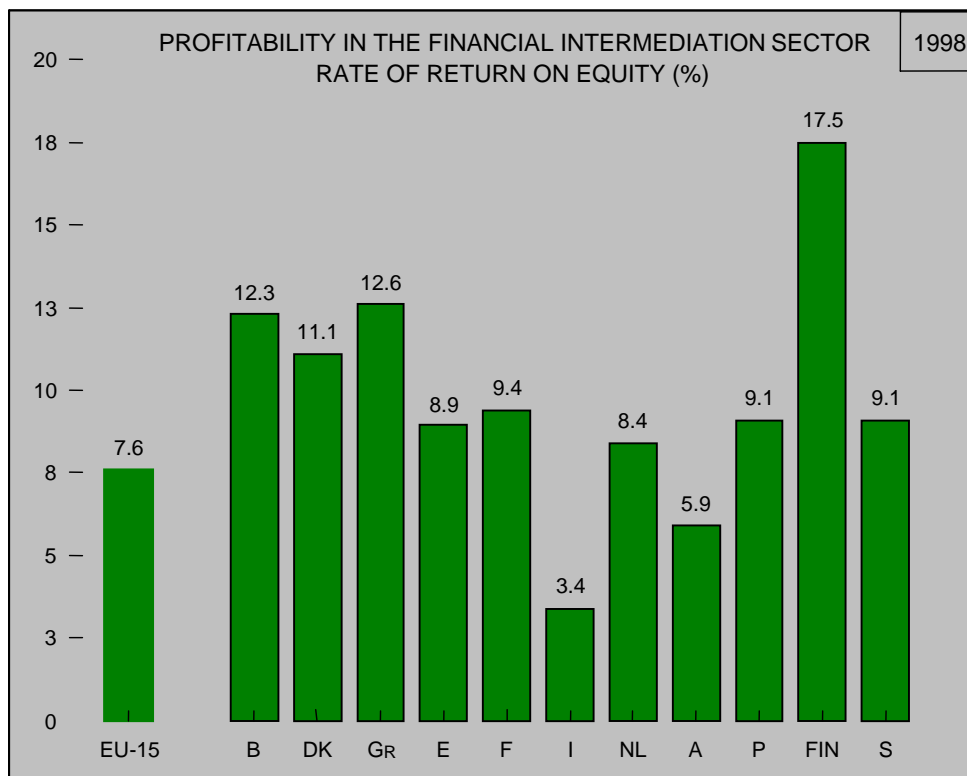


Figure 7

3. The pay of *Cadres* in the Greek banking sector

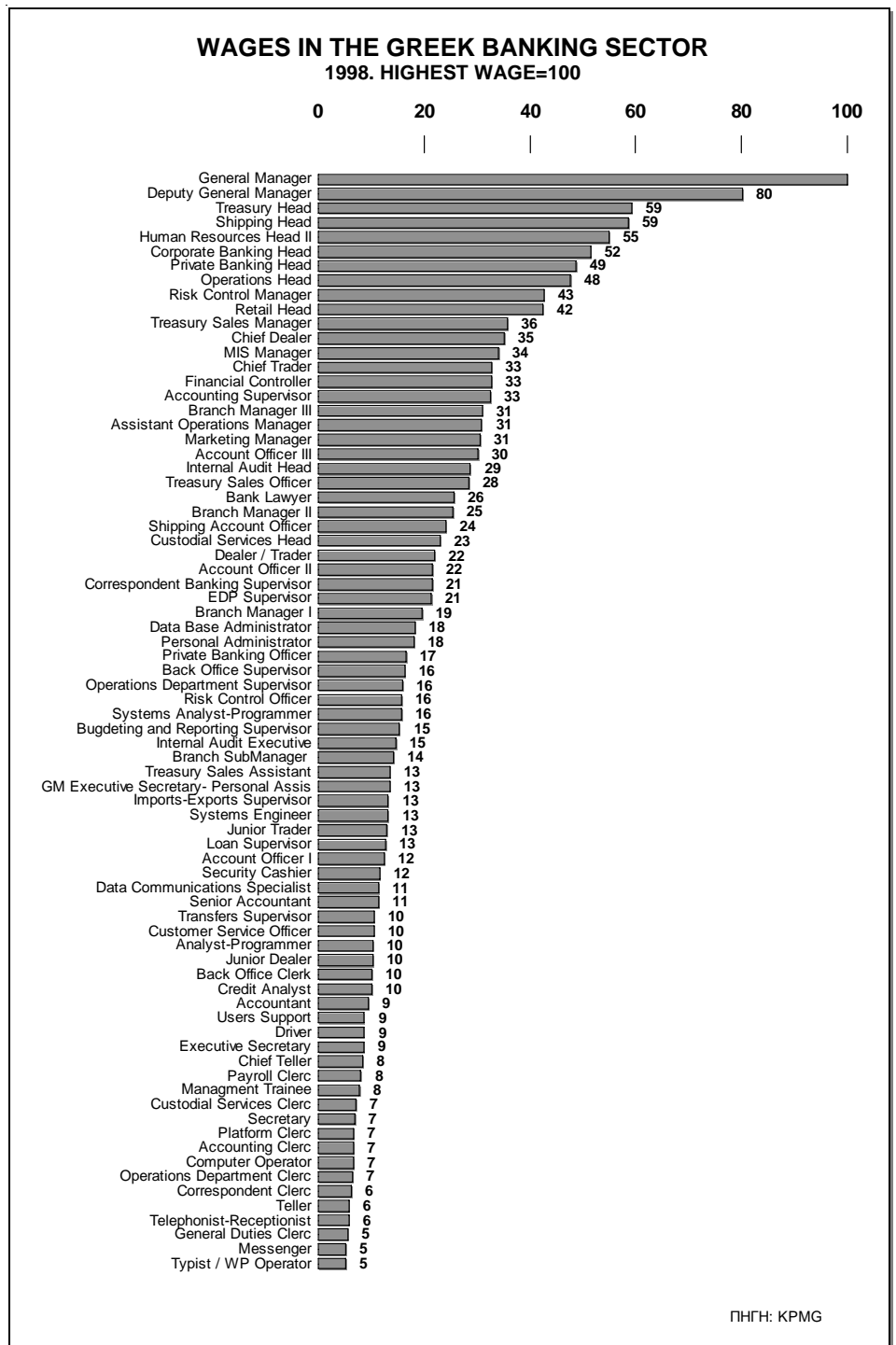
Compensation and Benefits Survey by KPMG is the only source of data on labour compensation of executives in the Greek banking sector. The most recent survey is for the year 1998 and it is based on information from 23 banks (17 of them are foreign banks). The results of the survey are not completely representative from a statistical point of view, since large banks are not included in the survey¹.

According to the KPMG survey, most of the banks have a formal salary policy. Executives take part in the wage formation process and the salary policy usually seeks to boost competitiveness. Most banks offer to executives, a salary and bonuses depending on individual performance and company profits. Stock options are a usual practice; that is not the case for profit sharing. In 9 out of 10 cases, formal rules prevail in the evaluation process, which takes place in order to increase compensation at levels higher than the current earnings.

¹ Banks included in the survey were: ABN AMRO Bank, American Express, ANZ Grindlay's, Aspis Mortgage, Bank of America, BNP, Barclay's, Bayerische Vereinsbank, Citibank, Credit Lyonnais, Dorian Band, EFG Eurobank, Εγνατία, Ford Credit, ING Bank, National Westminster, Opel Bank, Societe Generale, Tefin, Nova Scotia, Chase Manhattan, Royal Bank of Scotland, Xios Bank

In addition to salary and bonuses, the executives of the banking sector benefit from company cars, low interest rate credits, free mobile phone services etc.

Data published by KPMG for the year 1998, refer to annual wages (including constant bonuses), to variable bonuses and to total annual labour compensation. The survey describes the differentiation of earnings in relation to the size of the bank. The main findings of the survey are as follows: In Figure 8, wages are sorted in descending order (starting with General Manager and ending with Typist/WP operator). In Figure 9, variable bonuses by occupation in the banking sector are shown, keeping the same rank of occupations as in Figure 8 in order to see if higher variable bonuses correspond to

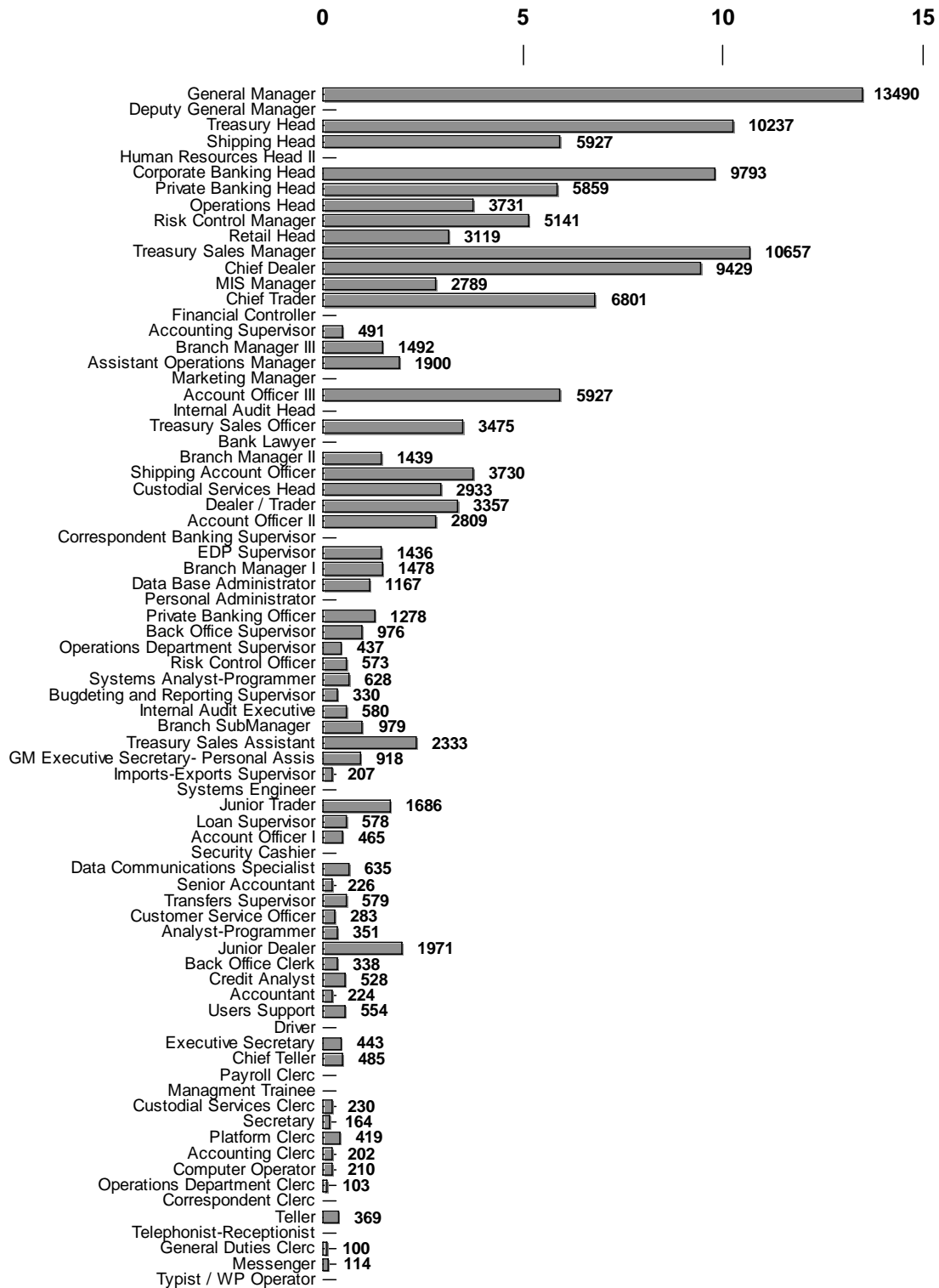


higher wages. In Figure 10, total annual labour compensation is shown and Figure 11 describes the differentiation of earnings in relation to the size of the bank.

Figure 8

VARIABLE BONUSES

1998. MILLION DRS

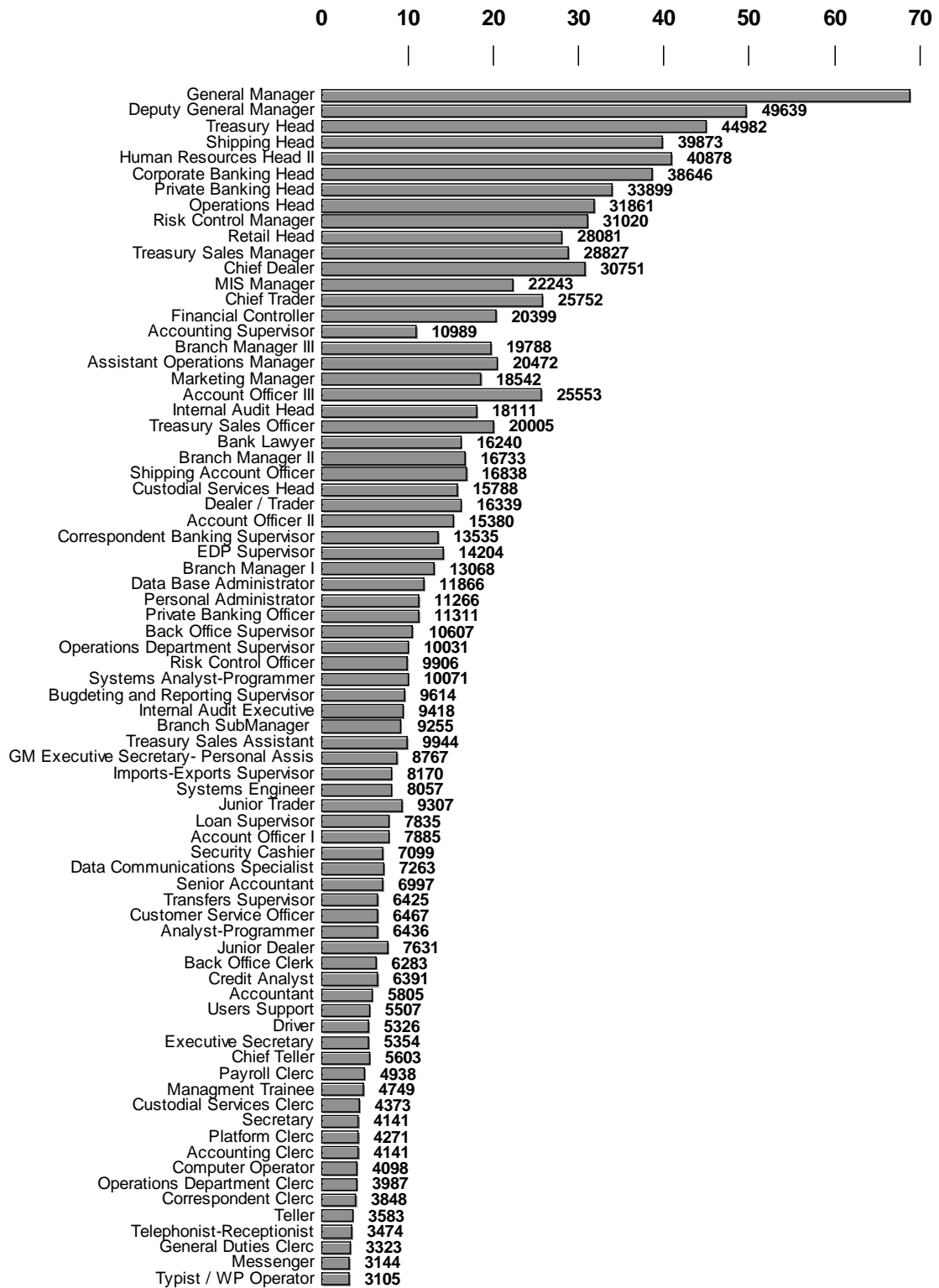


ΠΗΓΗ: KPMG

Figure 9

**TOTAL ANNUAL LABOUR COMPENSATION
IN THE GREEK BANKING SECTOR (1998)**

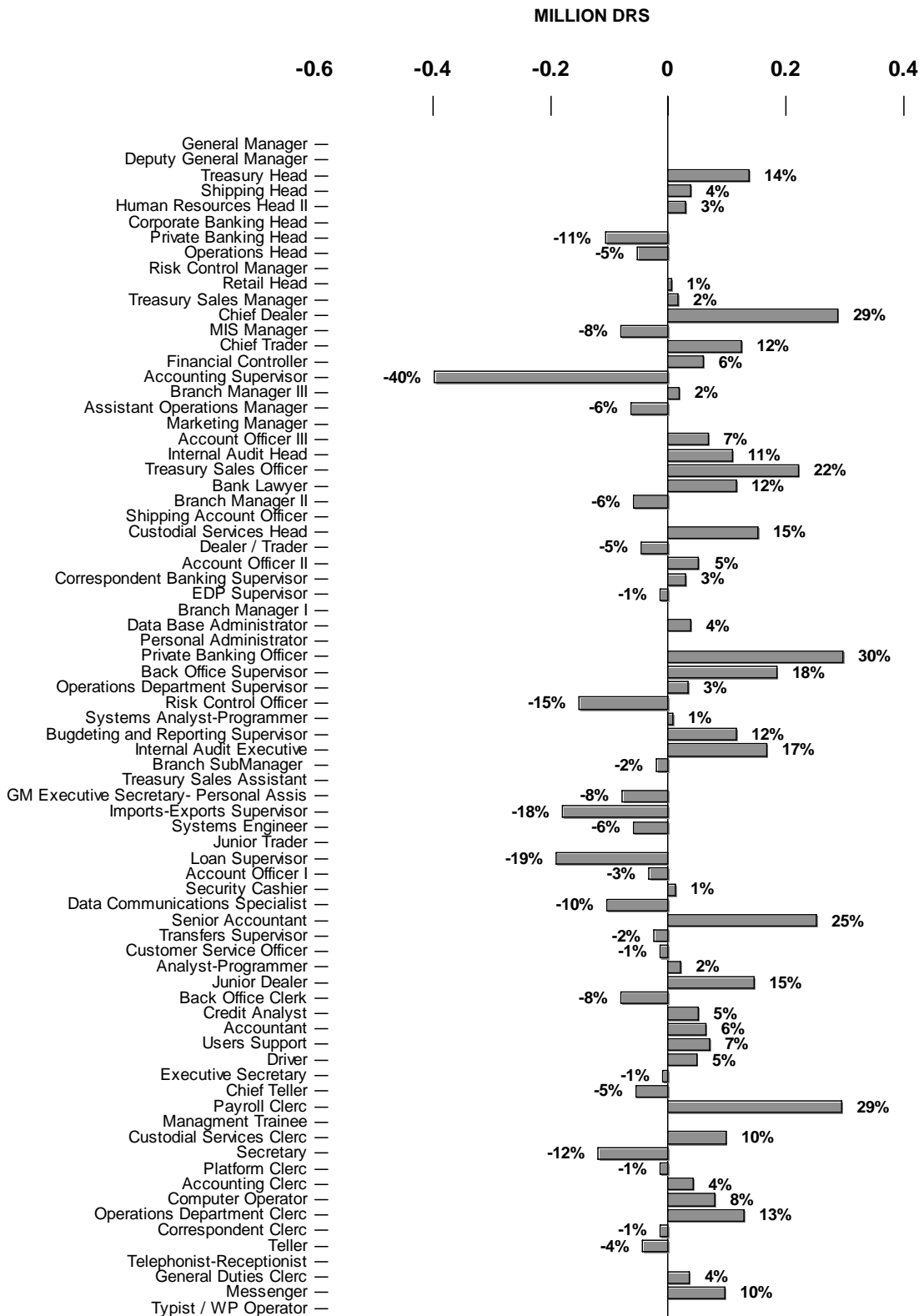
MILLION DRs



ΠΗΓΗ: KPMG

Figure 10

WAGES IN BANKS WITH > 200 EMPLOYEES
% DIFF FROM THE AVERAGE (



ΠΗΓΗ: KPMG

Figure11

From Figure 11 it follows that 10 occupations, General Manager, Deputy General Manager, Treasury Head, Shipping Head, Human Resources Head, Corporate Banking Head, Private Banking Head, Operations Head, Risk Control Manager, Retail Head, that is the core of executives, have wages significantly higher than the average (70-170 thousand Euros per year).

Variable bonuses are higher in occupations having high wages. Nevertheless, in some occupations such as the Treasury Sales Manager and the Chief Dealer, variable bonuses are high although wages are more modest.

Finally, the total labour compensation is higher (>60 thousand Euros per year) in 15 occupations: General Manager, Deputy General Manager, Treasury Head, Shipping Head, Human Resources Head, Corporate Banking Head, Private Banking Head, Operations Head, Risk Control Manager, Retail Head, Treasury Sales Manager, Chief Dealer, MIS Manager, Chief Trader, Account Officer III.

6.3 Basic findings of the survey

As already mentioned, the only source of information on the evolution of executives' pay in the banking sector is the "Compensation and Benefits Survey" conducted periodically by KPMG Peat Marwick Kyriakou.

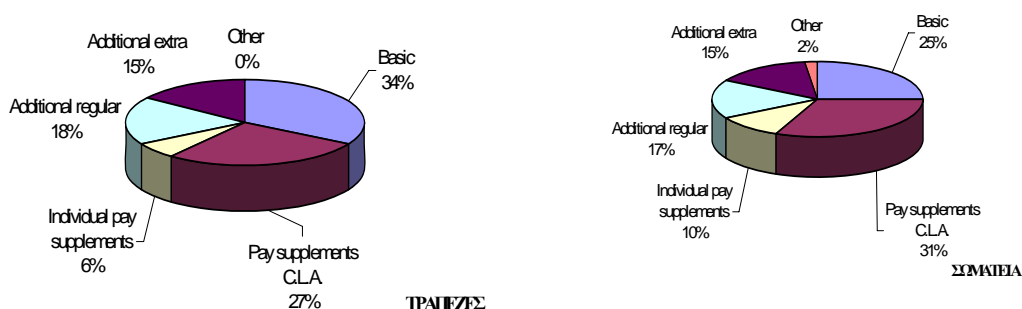
Since the data we have at our disposal from the Compensation and Benefits Survey refer to the year 1998, we have made an effort to confirm specific qualitative variables which appear to be characteristic of the sector, in the knowledge that the sample taken for our present survey is composed mainly of the banks not included in KPMG's sample.

For this purpose, the questionnaire sent to the banks and enterprise-level unions included questions regarding:

- ❖ The composition of executives' total annual pay
- ❖ The level at which executives' pay is determined, and finally,
- ❖ The existence of additional, primarily financial, incentives offered to executives in the banking sector

We will now present the basic findings of the survey regarding the pay of banking sector executives.

The responses we received from the banks and the unions to the question regarding the **composition of executives' total annual pay** are set out in the following Graph.

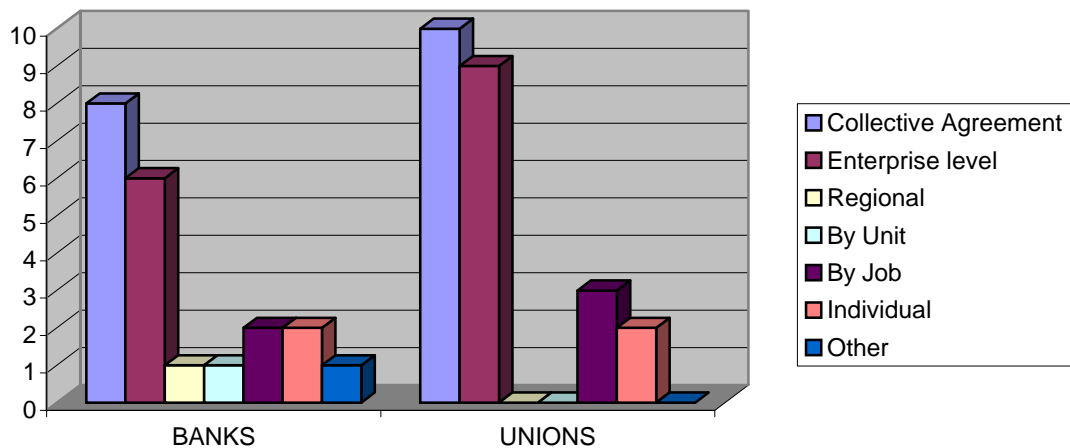


Graph 6.9

We see that the unions' estimations do not differ significantly from those of the banks with regard to the composition of executives' annual pay.

The same is true of the picture portrayed by the responses of the banks and the enterprise-level unions with regard to the level at which executives' pay is determined. Most of the answers, from both of the survey's sources, indicate the Sectoral Collective Agreements and the respective Enterprise-level Agreements as the means of determining executives' pay.

In more detail, the findings of the survey are the following:

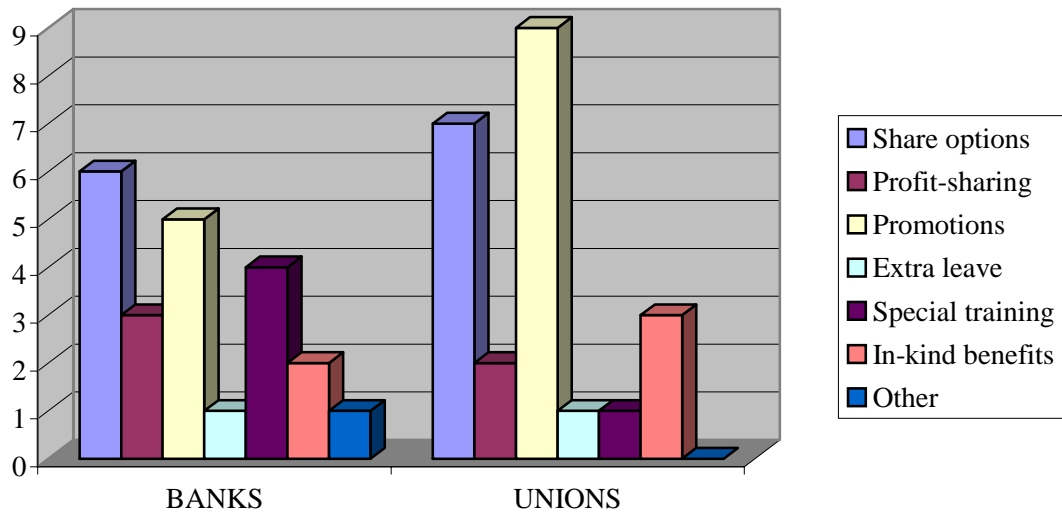


Graph 6.10

Of interest is the proportion that chose “individual level”, which statically, that is solely as a finding of this specific survey, is not statistically significant. However, it should be observed over time, in order to record the direction in which it develops.

In addition, the importance of the phenomenon of setting executives' pay according to the specific job (chosen by approximately 18% of all the banks and unions that responded to this question) increases when account is taken of the fact that a significant percentage of banks have no clear specifications for executive jobs as a whole (see Chapter 4).

Finally, the banks and unions responded to the question regarding additional incentives for banking executives as follows:



Graph 6.11

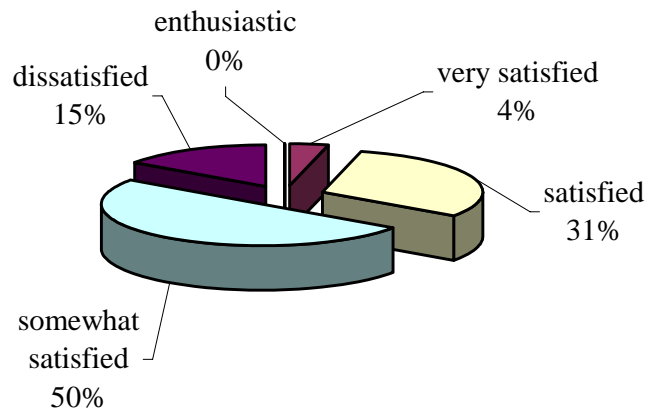
With reference to the survey data, we could make the following observations:

- ❖ A significant proportion (27% of the banks and 30% of the unions) mentioned share options granted to executives.
- ❖ The granting of extra promotions or placement in positions of responsibility seems to be an equally frequent phenomenon. This is reflected in 23% of the banks' and 39% of the unions' responses.
- ❖ Profit-sharing and various benefits in kind (including cars, cards, mobile phones, loans, etc.) are mentioned less frequently.
- ❖ Finally, the smallest proportion (in effect one response from a bank and one from a union) referred to the granting of extra days of leave to executives. This may be appreciated if account is taken of the fact that overall working time (on a daily and an annual basis) among executives has risen, and thus such a benefit may not be of any real value.

6.4 How satisfied are executives with their pay?

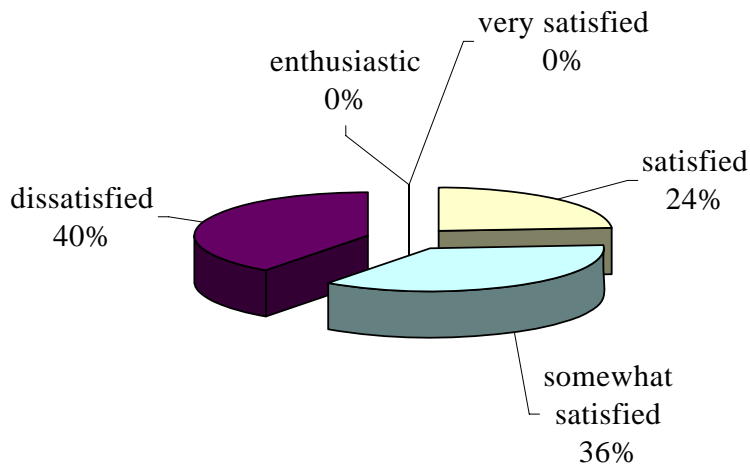
We will end this Chapter by presenting the degree of satisfaction executives themselves feel with the manner in which they are paid for their services, as recorded during the special executive working group held in July 2000. A total of 26 executives responded to this question, giving rise to the following picture:

DEGREE OF EXECUTIVE SATISFACTION with regular emoluments



Graph 6.12

DEGREE OF EXECUTIVE SATISFACTION with extra pay (bonuses)



Graph 6.13