

# Implications of Retrenchment in the Banking Industry for Economic Growth: A Study of Selected Commercial Banks in Uyo, Nigeria

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## **Abstract**

*The study identifies and analyses the sociological implications of workers' retrenchment in the banking industry on Nigeria's economic growth using selected commercial banks in Uyo as reference. The paper argues that banking reforms in terms of rationalization, capitalization and merger have negative effects on economic growth (rather than enhancing the development) of any country. Data were gathered from selected commercial banks in Uyo, Akwa Ibom State of Nigeria through the use of questionnaires and from secondary sources such as statistical publications and other relevant materials. Findings show that retrenchment of workers in the banking industry instead of promoting growth resulted in loss of depositors' confidence in the banking sector which also brought about loss of funds in the banking system and therefore stunt economic growth. The study recommends that training and retraining of workers should be given priority attention in the industry to improve their capacity for new demands.*

**Keywords:** Economic growth, retrenchment, banking reforms and commercial banks

## **Introduction**

A society develops economically when its members increase jointly their capacity for dealing with the environment. Such capacity is dependent on the extent to which the people understand the laws of nature (science), on the extent to which they put that understanding into practice by devising tools (technology), and on the manner to which work is organized (Rodney, 2009). Organizations, the world over whether private or public are continually being challenged by performance. Performance success is very minimal when measured on the indices of what Alo (2006) catalogued as what the customer needs and values, response to environmental changes and impact on the quality of the people.

Frederick (2014) observes that the issue of performance effectiveness or reengineering organization has preoccupied the minds of organization practitioners, researchers and watchers since 1990s. Hence, many countries of the world had carried out various reforms to ensure effectiveness of the real sectors. He asserted also that the performance revolution started in the private sector and its effects spread to the public sector, influenced by ideas from public Management school.

Nigeria also joined in the reform revolution in order to ensure quality of life for its citizenry. By so doing, legal and institutional frameworks were put in place to re-engineer the economy and stimulate performance in the real sectors. The blueprint of the current reforms agenda of the federal government is set out in the document known as the National Economic Empowerment and Development Strategies (NEEDS). Quite a number of sectors have had reforms including; the power sector reforms, Ports reforms meant to ensure timely clearing of goods within forty-eight hours, deregulation of oil and gas sub-sector to forestall perennial fuel scarcity, deregulation in the telecommunication industry to reduce government participation, create employment and commerce, the banking sub-sector/capitalization/consolidation to make it play its rightful role as the dominant sector of the economy in driving growth and development in other sectors.

Banking reforms in Nigeria take the form of recapitalization, merger and or acquisition, both in consolidation and post consolidation periods. The greatest reform was the recapitalization policy of July 6, 2004 which set the capital base upon which a player can operate in the industry to the tune of twenty-five billion naira (₦25b) from the previous two billion naira (₦2b) which many banks could not afford. This development in the banking sector called for mergers and acquisition of smaller banks by the big banks to be able to meet the new capital base requirement.

This further resulted in the mass retrenchment of workers in order to reduce costs, keep afloat, meet-up with competition and maximize profits. Available data revealed that about 31,980 bank workers were estimated to have lost their jobs during 2005 consolidation and between 2009-2011, the post consolidation period, more than 8,000 bank workers were disengaged, while over 9,000 of them lost their jobs in 2012 (Adedipe, 2006). In fact, the situation has not significantly changed but still going on as bank workers on regular basis are suddenly relieved of their jobs (Okafor, 2009).

According to Abogan, Olajide and Oloba (2014), the economic policies pursued prior to 1985 made the economy of Nigeria vulnerable to external shocks and subsequently, the 1986 budget sought to de-emphasize controls and adopted policy aimed at expanding the economic resources base. The economic reforms in Nigeria are aimed at generating a conducive environment for private investment.

The banking sector reforms resulted in bank mergers and acquisitions. As a result, the number of banks in Nigeria has shrunk from 89 in 2004 to 25 in December 2005 (Elijah, 2007). It is expected that with a much higher

capitalization base, the Nigerian banking sector will play an important role in financing economic development through increased credit to the private sector. It is on the strength of these high expectations from the banking sector that this study on Economic Growth and Retrenchment of Workers in the banking industry in Nigeria (a study of selected commercial banks in Uyo) becomes imperative and desirable.

The banking sector by its nature of activities is the most heavily regulated sector in most economies. In Nigeria, empirical studies had been carried out on the relationship between banking reforms and economic growth (Fadare, 2010); consolidation and adoption of e-banking (Ayo, Adewoye and Oni, 2010; Chimeke, Eviwiekpaefe and Chete, 2006); as cited in Frederick (2014); consolidation and macro economic performance (Somoye, 2008), the implication of the retrenchment of workers on economic growth in the face of the ongoing banking reforms has scarcely been researched. Fredrick (2014) observed that structuring to the economists is adapting to the demands of increasingly global markets for greater efficiencies. But sociologists always view the social impact, specifically the social problems engendered by externalities which result in social disruption especially the negative effects on the level of job security, commitment, psychological wellbeing and turnover intentions.

Though retrenchments in companies are aimed at cutting costs and the general assumption that if organizations retain the best employees and managers during retrenchment, the company or organization will perform better. However, bank retrenchment exercises in Nigeria negate this thought. Some unexpected negative outcomes have drawn both theoretical and practical experts' attention to the outcomes of retrenchment and the main question involved in managing retrenchment. Since economic development of a society is achieved when members of the society increase jointly their capacity for dealing with the environment, it therefore means that retrenchment of workers in the banking industry will only help in incapacitating the people to jointly deal with the environment and thereby causing social disruption through the negative effects on socio-psychological well-being of members of the society.

From the above argument, the main objective of this study is to identify and analyze the sociological implications of retrenchment of workers in the banking industry on the Nigerian economy in terms of growth and to making useful recommendations on how to improve economic growth through enhanced commercial banks performance.

Economic growth is the year-to-year quantitative measurable increases in per-capita income, that is, increases in the produced quantities of goods and services. In other words, economic growth is the index showing the annual increase of the national income or the increase in the quantities of goods and services produced annually in an economy. The realization of this growth in

the face of retrenchment of workers in the banking industry becomes questionable.

Retrenchment is defined as an internal management action involving a reduction in personnel designed to improve a company's competitive position in organization (Kurebwa, 2011). Retrenchment has a positive effect on a firm's financial performance, as it enables the management to eliminate redundancies, streamline operations, and reduce labour costs. However, Yu and Park (2005) found that retrenchment showed a positive effect by improving a firm's profitability and efficiency, but no effect on employee productivity. But Cascio (1993) observed that, none of the financial variable were significantly affected following retrenchment even during the pre-retrenching period. The financial variables were unrelated to the magnitude or frequency of retrenching activities.

Commercial banks are the oldest banking institution in Nigeria with the First Commercial Bank established in 1892 (Abogan, Olajide and Oloba, 2014). Commercial banking is the most important financial institution and also the most popular with the Nigerian public. Commercial banks have long been recognized to play an important role in economic development of Nigeria. This recognition dates back to Gold Smith 1955 which demonstrated that commercial banks could be catalyst of economic growth if it is well developed and healthy (Abogan, Oladije and Oloba, 2014).

Osunbor (1951) asserts that commercial banks are destiny wished financial institutions, through its saving mobilization and efficient financial intermediary roles. This efficiency can be achieved through optimal performance. Banking reforms have to do with the recapitalization of the banking sector by setting up a new capital base. The essence, according to Frederick (2014) is to consolidate the sector to enhance competitiveness and capacity to play important role of financing investment. An inventory of Nigerian banks between 1994 and 2001 as revealed by the Nigerian Insurance Corporation shows that a total of thirty-five (35) licensed banks went into distressed and were eventually liquidated. Out of these thirteen (13) were commercial banks eighteen (18) merchants and one (1) co-operative. The regime of banking sector reforms led to recapitalization and consolidation in Nigeria and the consequent merger and or acquisition of existing banks into twenty-five by 2005, and later eighteen by 2012.

### **Theoretical Framework**

This study adopts the institutional perspective as its theoretical guide. This approach according to Mckinley, Zhao and Rust (2000) emphasizes that the search for legitimacy and uncertainty reduction are more potent motivators for retrenchment of workers than economic efficiency and profits. The approach states that retrenchment of workers in organizations has taken on the status of an institutionalized norm and hence imparts legitimacy to this adopting retrenchment as a strategy for economic growth. In fact, Mckinley, Sanchez

and Schick (1995) have drawn on this institutional perspective to identify three social forces responsible for the retrenchment of workers from organizations including commercial banks, viz, constraining, cloning and learning.

According to the scholars, since the thinking among organizations is to get leaner and smaller, managers are constrained to do what is considered 'right' in this case, getting smaller by reducing the workforce. This is typical of the banking reforms in Nigeria in terms of rationalization, capitalization and merger which brought about reduction in the number of banks, and the workforce of the affected banks. Cloning forces result from imitating competitors and also following their actions irrespective of whether their strategies have proved beneficial or not. This implies that since retrenchment has become the order of the day, imitating competitors in this respect imparts some legitimacy to the managers. Learning forces through educational institutions and professional associations where the effectiveness of the strategy is further reinforced. Managers of commercial banks have learnt through educational institutions and professional associations to reinforce the effectiveness of retrenchment of workers under the pretext of enhancing economic growth. The concepts of constraining, cloning and learning forces are equivalent to the institutional theoretical concepts of coercive isomorphism, mimetic isomorphism, and normative isomorphism respectively, which explains how organizations strive for legitimacy. This theory also aligns with the perception of the classical theorist of economic growth – Adam Smith who observed that endogenous growth factors will lose momentum as capital accumulates. Smith also considered three potential limits to economic growth under his theory to include insufficient supply of workers, the scantiness of nature, and an erosion of the motives of accumulation of capital. The insufficiency in the supply of workers is normally experienced during retrenchment of workers such as in the case of banking reforms in Nigeria.

### **Methodology**

Uyo Metropolis constitutes the geographical area marked as Uyo Capital City Development Authority (UCCDA). The metropolis is accessible through five major road connections, Abak, Aka, Oron, Nwaniba and Ikot Ekpene Roads. Data for the study were generated through two sources: the Primary and the secondary sources of data. The primary sources include interviews and questionnaires. The secondary sources of data involved text book and relevant journal publications. The focus of the study was the entire commercial banks in Uyo Metropolis on workers in the four randomly selected commercial banks for the study. By the nature of the study the main respondents include the management, the senior and the junior staff of the four selected commercial banks in Uyo Metropolis. There are eighteen commercial banks with branches totaling thirty-seven (37) within the metropolis.

The main instrument for data collection was structured questionnaire which was administered on the staff of the selected commercial banks. Unstructured interview was also conducted in order to probe into the feelings of the workers on retrenchment as a strategy for achieving growth in the banking industry. A sample for the study was made up of forty-seven (47) respondents which were purposively selected from the total staff strength of the commercial banks.

### **Results**

This section focuses on the analysis of the data collected using various tools and instruments of statistics. Analysis of data has to do with the breaking down and arrangement of data into meaningful groups, together with searching the pattern of relationship among those data groups. Major findings of the study are made as privileged by the data. Tabular presentations of the data are presented below:

**Table I: The Capital Base of the merged Banks as at Dec. 2005**

<b>S/N</b>	<b>GROUP</b>	<b>MERGING BANKS</b>	<b>COMBINED ASSETS DEC. 2005, 'N' BILLION</b>
1	Access	Access bank, Marina Int'l Capital Bank	28.5
2	Afribank	Afribank, Afribank Merchant	29
3	Diamond	Diamond, Lion Bank	33.25
4	Eco Bank	Eco bank	Over 25
5	Equatorial Trust	Equitorial Trust, Devcom	25
6	FCMB	FCMB, COOP Dev. NAMB Ltd	30
7	Fidelity	Fidelity, FSB Int'l, Manny	29
8	First Bank	First Bank, FBN Merchant, MBC Int'l	44.62
9	First Inland	First Atlantic, Inland, IMB Int'l NUB Int'l	28
10	Guaranty Trust	Guaranty Trust Bank	34
11	IBTC Chartered	IBTC, Regent Banks	35
12	Intercontinental	Intercontinental, Equity, Global, Gateway	51.7
13	Nigeria Int'l Bank	Nigeria Int'l Bank (City Group)	25
14	Oceanic Bank	Oceanic Bank and International Trust	31.1
15	Platinum	Platinum Bank & Habib Bank (Bank PHB)	26
16	Skye	Prudent Bank, EIB International, Cooperative Bank, Bond Bank & Reliance Bank	37

**Table I: The Capital Base of the merged Banks as at Dec. 2005**

S/N	GROUP	MERGING BANKS	COMBINED ASSETS DEC. 2005, 'N' BILLION
17	Spring Bank	CITI, ENS Inter. Bank, Guardian Express Bank, ACB Inter Bank, Omega Bank, Fountain Trust Bank & TRANS, International Bank.	Over 25
18	Stanbic Bank	Stanbic Bank	25
19	Standard Chartered Bank	Standard Chartered Bank	26
20	United Bank of Africa	UBA, and Standard Trust Bank	50
21	Sterling Bank	Magnum Trust Bank, NAL Bank, Indo-Nigeria Bank & Trust Bank of Africa.	25
22	Union Bank	Union Bank, Union Merchant, Board Bank and Universal Trust Bank	58
23	Unity Bank		30
24	WEMA Bank	WEMA & National Bank	26.2
25	Zenith Bank	Zenith	38

**Source:** Adapted from Press Release (3/1/06), Financial Standards (16/1/06), and the Comet (3/1/06)

**Table II: Pre and Post Recapitalization, Performance Evaluation Ratio for Nigerian Banks**

	Pre-recapitalization			Post-recapitalization		
	2002	2003	2004	2006	2007	2008
Net Interest Margin (NM)%	11.16	14.88	9.12	10.47	7.71	10.21
Yields on Assets (YEA)%	17.55	4.64	4.62	27.55	20.32	18.88
Funding Cost (FC)%	8.09	9.42	9.47	13.05	9.63	9.66
Return on Equity (ROE)%	86.08	00.59	99.45	41.63	29.11	27.23
Return on Assets (ROA)%	4.52	4.13	3.96	2.63	2.00	2.58

**Source:** NDIC Annual Reports (2002-2008)

Table II shows the return on equity (ROE) which measured the rate of return to share holders. This stood at 99.45 in 2004 before consolidation, but dropped to 27.23% by 2008. Again, return on assets (ROA) that stood at 2.9% before consolidation in 2004 also dropped to 2.58% by 2008. This development aligns with the post development approach (Fredrick, 2014), which postulates that strategy for development that is driven by the western initiative does not bring about organizational efficiency rather disillusionment and underdevelopment.

**Table III: Commercial banks selected for the study and their staff strength**

S/N	Name of Banks and Address	Staff Strength
1	Sterling Bank, Abak Road, Uyo	24
2	UBA Plc, Abak Road, Uyo	25
3	Ecobank, Oron Road, Uyo	22
4	FCMB, Oron Road, Uyo	23
	<b>TOTAL</b>	<b>94</b>

**Source:** Researchers' fieldwork, 2014

Table III shows the staff strength of each of the four (4) selected banks used for the study. From the table, Sterling bank Abak road, has twenty-four (24) staff, UBA Plc Abak road has twenty-five (25) staff, Ecobank Oron road has twenty two (22) staff while FCMB Oron road has twenty three (23) staff. The few staff strength of these banks is a reflection of the implications of retrenchment of workers in the banking industry on Nigeria's economic growth.

**Table IV: The Percentage Distribution of Retrieved Questionnaire**

S/N	Respondents	Questionnaire Distributed	Questionnaire Retrieved	Percentage
1	Sterling Bank, Abak Road, Uyo	14	14	100
2	UBA Plc, Abak Road, Uyo	12	11	92
3	Ecobank, Oorn Road, Uyo	10	8	80
4	FCMB, Oron Road, Uyo	11	9	82
	<b>TOTAL</b>	<b>47</b>	<b>42</b>	<b>89.4</b>

**Source:** Researchers' fieldwork, 2014

Table IV shows the percentage distribution of retrieved questionnaire from the respondents. Fourteen (14) copies of the questionnaire distributed to Sterling bank Abak road were retrieved, representing 100% response rate. In UBA Plc Abak road, out of twelve (12) copies of the questionnaire distributed to the correspondents, 11 copies were retrieved, representing 92% response rate. Out of 10 copies of the questionnaire distributed to respondents in Ecobank, Oron road, 8 copies were retrieved representing 80% response rate, while 9 copies of the questionnaire out of eleven (11) were retrieved from respondents in FCMB, Oron road, representing 82% response rate. A total of 80.4% response rate was achieved by this study in the course of questionnaire distribution to the respondents.

**Table V: The percentage distribution of responses to research questions on the implications of retrenchment of bank workers on economic growth**

Categories of respondents	No of respondents	Implications of retrenchment bank workers					
		Loss of Depositors' money		Increased unemployment rate		Loss of customers' confidence	
		(Yes)	(No)	(Yes)	(No)	(Yes)	(No)
Mgt Staff	10	8	2	10	Nil	7	3
Senior Staff	14	13	1	14	Nil	14	Nil
Junior Staff	18	15	3	18	Nil	16	2
Total	42	36	6	42	Nil	37	5

**Source:** Researchers' fieldwork, 2014

From table V, 8 out of 10 respondents, representing 80% of the management staff agreed that retrenchment of bank workers guarantees loss of depositors' money, while 2 respondents, representing 20% disagreed. All 10 respondents from the management staff, representing 100% agreed that retrenchment of bank workers increases the rate of unemployment in Nigeria. The table also shows that respondents from the management staff representing 70% agreed that retrenchment of bank workers encourages loss of customers' confidence while 3 respondents, representing 30% said no. 13 respondents, representing 93% from the senior staff agreed that retrenchment of bank workers guarantees loss of depositors' money, while 1 respondent, representing 7% said no. All the 14 respondents, representing 100% from the senior staff agreed that retrenchment of bank workers increases the rate of unemployment in Nigeria. The 14 respondents also agreed that retrenchment of workers encourage loss of customers' confidence in the banking system.

Finally, table V, shows that 15 respondents, representing 83% from the junior staff agreed that retrenchment of bank workers guarantees loss of depositors' money, while 3 respondents, representing 7% said no to the question. All the 18 respondents from the junior staff, representing 100% agreed that retrenchment of bank workers increases the rate of unemployment in Nigeria. 16 respondents, representing 89% from the junior staff agreed that retrenchment of bank workers encourages loss of customers' confidence in the banking system, while 2 respondents, representing 11% said no to the question.

Data in table V aligns with Yu and Park (2005) position which states that though retrenchment shows positive effect by improving a firm's profitability and efficiency, it has no effect on employee productivity. It also support the position of Kurebwa (2011) that retrenchment is an internal management action involving a reduction in personnel though designed to improve the firm's competitiveness.

### ***The Implications of Retrenchment on Economic Growth***

- i. **Loss of depositors' Money**  
Retrenchment of workers according to responses from the respondents' promotes economic depression as a result of loss of money from depositors instead of enhancing economic growth. Though, the minimum capital of banks is a veritable reform on banks in Nigeria, the effect of its increase should be taken into consideration in order not to cause increase unemployment through retrenchment of workers which also result in lack of depositors' confidence on the industry and loss of money which can stall other businesses with spiral effects.
- ii. **Increased Rate of Unemployment**  
Retrenchment of workers in the banking industry enhances increased rate of unemployment with attendant social distortions and contradictions including social vices like armed robbery, kidnapping and terrorism. Information from the respondents has confirmed that retrenchment of workers in commercial banks in Uyo metropolis enhances increased social vices like armed robbery and kidnapping in Uyo. They pointed to some former bankers that have been involved in the various offences mentioned.
- iii. **Loss of Depositors' Confidence**  
Mass retrenchment of bank workers who had established a relationship with depositors in the course of doing business with the banks has resulted in the depositors' loss of confidence in the banking system. This development instead of stimulating economic growth has only negated the possible growth in the economy.

### **Conclusion and Recommendations**

The banking industry is one of the important sectors of the Nigerian economy. Retrenchment of workers in the industry became one of the effects of deregulation of the industry as any policies in the banking sector including its activities affect the micro-economic situation in the country. The banking sector recapitalization as a policy came with double edge: benefits and problems on the economy, the people and the society. Though banks have achieved some efficiency in terms of its operations, retrenchment of its teaming workers further depend unemployment rate and also brought about uncertainty, disillusionment and job dissatisfaction. With the retrenchment of workers in the banking industry as a result of recapitalization of the sector, the economy rather becomes depressed. The Gross domestic products took a downward turn compared to what was obtainable in 2005 and further nosedived in 2009 and 2010.

The loss of money as a result of lack of depositor's confidence on the industry stalls other businesses with spiral effects. On the whole the retrenchment of workers in the banking industry rather than promoting economic growth, depresses the economy and raise the rate of unemployment in Nigeria.

In view of the major findings of the study, a lot needs to be put in place if the trend must be reversed. Thus, the following recommendations are made:

1. Instead of retrenching workers of the banking industry as result of the new demand, training and retraining of workers should be given priority attention to improve their capacity for a new demand.
2. Regulatory agencies should be put in place for periodic monitoring of all banks to ensure compliance with code of corporate governance by banks.
3. Instead of retrenchment in the banking industry, mechanism should be put in place for workers' reward for hard work and punishment for redundancy and laziness.
4. Credit to the real sectors should be encouraged by banks. Small and Medium Scale Enterprises (SMEs), manufacturing and agriculture should be given loan as this can expand capacity utilization and ultimately employment generation.

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