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## RETRENCHMENT IN NIGERIAN BANKING SECTOR; ISSUES AND CHALLENGES

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### **Abstract**

*Globally, the banking sector is an essential sector of nations economy hence the instability in the sector is capable of creating a serious problem to its workers as well as hampering the achievement of sustainable development in the economy. In Nigeria, banks have been experiencing instability since the inception of the merger, which has resulted in the retrenchment of bank workers, thus, contributing to the already soaring unemployment rate in the country. Human resources are a vital tool for organisational growth and well-being and they should not be compromised. The aim of this paper is to examine the issues and challenges of workers retrenchment in Nigerian banks. The methodology employed is mainly the analysis of the secondary data from books, journals, internet, related literature and documentaries. The paper also contends that urgent attention should be given to this economic challenge so as to avert the rate of unemployment that already exists in the country. The paper suggested among others that the banking sector should desist from all forms of unethical practices that are lingering in most banks, otherwise the realisation of the sustainable development through the banking sectors in Nigeria may hardly be attainable.*

**Keywords:** *Challenges, Workers, Retrenchment, banking sector and human resource.*

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### **Introduction**

Over the years, the banking sector has been experiencing several crises and challenges and this is as a result of crises from the economic recession, globalization and technological changes. Kurebwa, (2011) and Young, (2012), asserts that African countries had their own experience of this global recession with their associate reforms policies and mas retrenchment. Apart from global

economic crises that affected Nigerian banking businesses, the sector has been consistently battling with series of internal crises such as bank undercapitalization, distress and outright liquidations, loss of depositors' funds, abuses, extreme corruption, unethical practices, violation of bank rule by executive management, unpaid loans, emerging functions in the banking industry so on. Bank consolidation commenced in Nigeria between 2004 and 2009. This period has been a worry and concerns for workers in the Nigerian banking sector, because, they are the ones that bear the consequences that are associated with these crises. The news of retrenchment has been received with great apprehension by the bank workers. For example, Senate summons, labour threatens strike over the sack of bank workers, panic in banks over workers retrenchment and so on. Since the commencement of the global recession the situation is quite sympathetic and a result many world financial institutions collapsed. The same thing is applicable to the Nigerian economy which experienced financial crises in 2009 and this resulted in the crises in the banking sectors. The apex bank has applied different measures such as the injection of liquidity into the banking sector, replaced the leadership of some of the banks, introduced some policies to enable them to stabilize the banking sector as well as the economy but despite all these measures, the sector has not been stabilised. It is imperative to know that we learn lessons from the crisis and take steps to prevent the problems and develop measures that will ensure financial stability in the economy so as to attain sustainable development. Therefore, this paper aims to discuss the issues and challenges of retrenchment on Nigerian Bank workers.

### **Clarification of Concepts**

#### **Concept of Retrenchment**

Retrenchment is a process of a company or organisation to reduce the number of workers in its employment in order to match or meet operational requirements. Gulati et al., (2010), argued that retrenchment has been experienced widely in organisations especially in recession/ restructuring periods.

Business dictionary described retrenchment as dismissal or termination of a worker when the job ceases to exist usually due to technology or economic change. It can also be seen as a forced lay-off of employees by the organization be it public or private. Retrenchment can also be viewed as an avenue for changes in organisational culture.

Hammers (2012) cited in Meagher2012submits that retrenchment is the situation in which the employer terminates an employee's employment due to, the economic downturn, takeover or mergers, restructuring or technological

change. Retrenchment is an important factor that changes the organization from its current situation and initiates organizational changes.

### **Survivors**

These are the employees who are unaffected by retrenchment and remain with the organisation subsequent to retrenchment. Retrenchment affects work progress witting or unwittingly, there is a need for the survivors to adjust to the new system that will enable them to perform and determines the success of retrenchment in the organization.

### **Challenges and issues in the Nigerian Banking Sector**

The change of placement and rationalization has resulted in serious job loss in many Nigerian Banks. Thus, workers see that their jobs are unsuitable as there is no stability of tenure in their jobs. Today, job cut is the order of the day in Nigeria and this a great treat has posed a great to the bank workers, societies as well as the economy. Some of these issues and challenges are highlighted below; sometimes retrenchment of workers may be inevitable so as to guarantee stability in the sector.

### **Electronic Banking**

E-banking can be described as a means which banking business is transacted using the automated process and electronic devices such as personal computers, telephones, internet, card payments and other electronic channels. (CBN2003) It further stated that some banks practice electronic banking for informational purpose, some for simple transactions such as checking account balance as well as transmission of information while others facilitate funds transfer and other financial transactions while many systems involve a combination of these facilities, e-banking businesses are concluded in a moment. Over the years, the Nigerian banks have experienced great changes linked with the development in an information system. The development of e-banking poses a great challenge to the regulatory authorities in the system due to the advancement in the information system, for instance, internet banking, mobile banking, Debit cards, Automated Teller Machine, Online bill payment have all taken off in the Nigerian banks for over ten years. For example, the work that should be performed by at least four persons has taken over by the computer. In fact, most transactions that should be done in the banking hall can easily be done anywhere and even in our living rooms. Today, people recharge their phones especially the literate ones from their banks account while sitting in their various homes and their

workplaces. This is a serious challenge to the banking sector even the trend has cut across other sectors.

Furthermore, the front desk staff roles, such as receiving cash, cheque and making payments, among others, has drastically reduced as Automated Teller Machines (ATMs) and e-banking takes root in the industry. For example, my younger sister was retrenched from one of the Nigerian banks due to this issue. This is a job loss which has resulted in additional unemployment and it affects the Nigeria quest for sustainable development.

### **Technological change**

Despite the benefits that accrue to technological changes in the organization, such as its enhancement of quality of services, and efficiency in the workplace. Banks and organizations are taking the benefits of new technologies to accomplish a competitive advantage in the prevailing market. But it has an adverse effect on banks because they face serious challenges in the introduction of new technology. As a result, jobs that are meant for more people will be done by one person and the consequence is retrenchment.

### **Budget Implementation**

Budget is a financial statement prepared and approved prior to the defined time period expressing the plans, policies and programmes to be pursued by a government or private enterprise over the period, for the achievement some given set of objectives. Fasua, (2011) In Nigeria, government is one of the highest spenders through fiscal policy but sometimes the implementation of the budget is usually delayed like in this present administration liquid is not in circulation and it slows the economy, it is a challenge to banking sector, in order to continue to be in business it calls for retrenchment since funds are not adequate for their effective performance. For instance, a lawmaker reported that the yearly consideration of budget which was hitherto a mega harvest period was a colossal disaster because members of the appropriation committee who hitherto smile to banks were disappointed as no minister or head of government agency grease their palms as the economy is biting hard; it is a serious problem to banks.

### **Global Recession**

This contributed to the challenges and issues Nigerian banks are facing. Many other countries of the world Nigeria inclusive were hit by financial crises, the feeling is all over the economy, the pains of the financial meltdown, mostly shown in the d of the decline of credit in the economy. This is due to the bad lending

decision by the banks. It has also resulted in a huge loss of capital as well as reforming the macroeconomic environment. The crisis has contributed to shortfalls in Nigerian banks, weak consumer demand, fall in global output especially the drop from the Nigerian oil due to the activities of the Niger –Delta avengers.

### **Management Practices**

Poor management practices and absence of necessary controls measures were prevailing in Nigerian banks, as the management of the banks had declined to comply with the established controls. The global financial meltdown and the post-consolidation weakness in the Nigerian financial system, occasioned by illegal and criminal activities in some of the Nigerian Banks have resulted to a fragile financial system which the Central bank of Nigeria has tried to fix. For instance, the ambition of some of these banks has led to the wrong direction and is one of their motivation for caring out these unethical acts which will eventually lead them into distress. The capital base of the Banks. The present harsh economic condition and realities of liquidity have contributed to the retrenchment of banks workers. Some of the banks have insufficient liquid to carry out their duties. The money that supposed to be in circulation is no longer available, as a result, they are unable to meet up their obligations and for the continuity of the business, the greatest a way to survive is only through retrenchment.

### **Bad Lending**

Banks in Nigeria have no successful lending programmes like the economies of other countries such as the Asian economies like Japan, Korea, China and Vietnam where many programmes were funded by the state budget or through the government-controlled programme. In Nigeria, the consequences of bad lending have contributed to low credit in the economy, huge provisions and loss in their capital and lack of progress in reforming the macroeconomic environment. These are as a result of decisions by the banks.

### **Use of non-standard managers.**

The use of unqualified managers has been a great challenge in many Nigerian banks. Sometimes Bank usually employs a novice to manage the affairs of the bank, due to “man know man” syndrome in Nigeria. An industrialist without a good knowledge of information technology, emerging trends in the banking job good and good knowledge of the Nigerian economy is employed to manage the

affairs of the banking sector. In the end, the workers bear the consequences because the aim of which the bank relies on will not be achieved. Again many banks executives fail to approve independent auditors as required by a license banks to report to the shareholders in respect of the annual balance sheet and profit and loss account and any other information as may be prescribe by the Central Bank of Nigeria (CBN) to audit their accounts and proved detailed reports of the respective banks over their performances. And this inappropriate reports and non-compliance of the regulatory requirement by the government is a problem. For example once is dictated the bank involved would face sanctions which can lead to distress, at long-run workers will bear it. This is in line with Okafor, (2010), who stated that, unsurprisingly, the executive management of some banks in Nigeria were busy converting depositors funds to their private purse and offer fictitious loans to their companies, relations and close pals, thereby leading the banks to a state of gross undercapitalization and distress. Musa, (2013) also submits that the consequence is that some banks have stopped declaring false profit as was the case in the past. However, in order to still maximize profits, the cost had to be minimized via retrenchments.

### **Unpaid loans**

Unpaid loans and loans also contributed to the retrenchment of Nigerian bank workers. Due to present economic hardship in the country, banks are seriously facing economic hardship due to some unpaid loans by the customers. Example, a lawmaker was reported that he borrowed money to run his election as with the case for the other administration, but unfortunately for him this period he borrowed again to return to national assembly but this is difficult and he was unable to repay the loan as at when due. Politicians hitherto doled out funds to their supporters presently they have adjusted due to the new reality (Sun nwespaper2016)

### **Targets**

Targets are one of the means Nigerian banks make their money. Presently, the system is not yielding unlike before. The reason is due to the anti-corruption fight by the present administration. Banks are not getting money as they used to be. All free money has been blocked and this has resulted in leakages in banks. There is no more business as usual. As the huge money is not forthcoming, banks could not fulfil their obligations. Again the markets are not finding it funny due to hard economic conditions in the country. Many workers have been sacked because thy cloud not meets up with their targets.

### **Regulatory body**

Some banks are not implementing the statutory laid down rules and regulations by the government such as Banking and Other Financial Institution Decrees (BOFID) 1991. BOFID is an act that guides the operations in Nigerian Banks which emerged from bank ordination. (Abaran 2011). This act provides the following; minimum capital of banks, the appointment of the directors, statutory results, restriction in lending branding by banks, maximum lending limit and investment in other sectors by banks. Companies and Allied Matters Act 1990 (CAMA).By disclosing their profits, sometimes they overstated it or understated it. This does not give out the true and fair view of the transaction in banks. For example this is one of the reasons Nigerian government embarked on the Banking reforms in Nigeria which commenced on July 2004 and climaxed in 2009, the reforms which took the form of merger and acquisition involved, downsizing, retrenchment, rationalisation, cost reduction programme, etc. to enable the banks to remain in business and focused. Since the issue of 25billion consolidations from the banks, most of the banks have not been stabilized and it caused more harm than good. In the process, most workers lost their jobs since banks cannot take care of their emoluments. It is a serious challenge

### **Money laundering**

The growth of electronic money laundering has increased. The menace of money laundering through banks in Nigeria is so devastating that it can render the economy of a nation into jeopardy. No nation will remain comfortable under the atmosphere of this bettering criminality considering the effect it has on the economy. Most Nigerian banks refused to pay attention to the Nigerian Laundering Act of 2003. And this has contributed to the closure of some banks who were involved in the act. Today, the defunct banks especially Oceanic bank and the intercontinental bank were out of business and their workers have been thrown to face the labour market that is saturated. The present administration is working assiduously to prevent this issue. If not prevented more banks will be affected and the result will be retrenchment, downsizing and so on.

### **Implementation of Commissions on turnover (COT)**

Commissions on turnover are one of the major issues that affected the Nigerian banking sector. It is one of the avenues through which banks make their surplus gains. But Since 2016, this is no longer a child's play to banking industries. Obire, a former executive director of Keystone Bank, stated that COT alone contributes over 60percent to the fees and commissions income. With this development,

Nigerian banks stand to lose about N100 billion in annual revenues due to zero implementation of COT. This is a problem for many Nigerian banks.

### **Introduction of change.**

Changes associated with the banking reforms are a continuous process and is inevitable because reforms require a lot of integrations of technologies and operations especially in situations where merger and acquisition have taken place. Whenever banks are merged, it is likely that there will be job loss because sometimes it serves as a measure or strategies the management want to take so as to stabilise the system. This process contributed a lot of job loss during the consolidation exercise by the CBN in 2004, according to Fanimo (2006), about forty- five thousand workers including all categories and cadres were affected and this condition is not favourable to our economy. This practice has been lingering in the Nigerian Banks thus some banks were declared distressed and merged with other banks. This later resulted in the mass retrenchment of bank employees, especially those that were acquired by the other banks. Change can bring about job loss despite that it meant for the stabilization of the economy. At the long run, the workers bear the consequence.

### **Treasury Single Account (TSA) Policy**

The Implementation of the Treasury Single Account (TSA) is one of the challenges of retrenchment in Nigerian Banks. Adeolu (2015), described Treasury Single Account as open accounting system under which all government revenue, receipts and revenue are collected into one single account, usually maintained by the country's Central Bank and all payments done through this account as well. Obinna, (2015) was of the opinion that the idea of Treasury Single Account commenced when some agencies declined to state and forward the 25% of their annual revenue they generated to the treasury as required by law. In 2012 about N120 billion was forcefully collected by the government from MDAs (Ministries, Departments and Agencies) being 25% of their gross revenue to the treasury with another N34 billion collected in 2013. Before then, many MDAs were unwilling to remit the demanded amounts by law to the treasury. In the same vein, Adeolu stressed further. that the maintenance of a Treasury Single account will help for effective cash management by reducing the idle funds usually left with different banks and this will boost reconciliation of revenue collection and payment. This also supports Ejinkeonye (2016,) who posits that the implementation of the TSA had left the banks with severe liquidity problems, which had made them reduce their workforce in order to survive. In fact, the



retrenchment in the financial sector as witnessed in some Nigerian Money Deposit Banks could be attributed to the adverse implication of the Single Treasury Account policy of the Federal Government.

### **Public relations**

Public relations is one of the forms of banking jobs but due to changes in society, the name has been modified to corporate communication in many banks. It has reduced most of the banking jobs. Even most public relations jobs have been contracted out to public relations companies and these companies are the ones monitoring their activities; this has attracted a limited workforce. It is a challenge to the banking industry.

### **Economic recession**

Economic recession can be described as a financial crisis; it is a period of an economic meltdown that is characterized by declining productivity and often devaluing of financial institutions due to reckless and unsustainable money lending (Wiktionary). The Nigerian Apex Bank (2012) described a recession as a business cycle reduction which refers to a general meltdown in the economic activities of a country for a certain period of time. It can also be seen as a period of general economic downturn and is usually accompanied by a decline in the stock market, house hold income, saving capacity, level of investment and an increase in unemployment. A recession is an era of dwindling business activity that cut across the whole economy, which can last for a few months. The economic recession is generally caused by a loss of business and/or consumer confidence once confidence reverts, so do the demand. During this period, there is always a loss of confidence and this makes businesses men and women or consumers to stop patronizing the banks as witnessed in Nigerian banks which resulted to laying off in banks and also surges the rate of unemployment in the country.

### **The effects of retrenchment on workers in Nigerian Banks:**

Retrenchment has some effects on the bank workers, some of which include;

### **Depression**

Retrenchment of workers does not only pose a challenge to the survivors but also society at large. Retrenchment could be frustrating; it does not only affect the financial security of the individuals; it distorts personal worth. Retrenchment exposes the survivors to worries since they cannot ascertain the period they will

remain jobless. Sometimes they are troubled at the events in the workplace as a result of job insecurity. It affects the motivation to work and also diminishes their morale. If the process is not handled with care, retrenchment could lead to depression.

### **Unemployment**

Unemployment is a global growing social problem. In Nigeria, unemployment is a serious issue to the Government and its citizens because millions of graduate are unemployed and the number keeps on increasing due to the increases in retrenchments and other factors. Loss of a job can lead a person to engage in social vices such as criminal, arm robbery, kidnapping, drug abuse, prostitution, touts, excess drinking etc. unemployment can be stressful and disgusting to the retrenched, also to their dependent relatives and the society as at large.

Even the employees who manage to survive the retrenchment exercise experience the ill-effects of retrenchment. This is in line with Isrealstam ((2012), who affirmed that retrenchment increases the higher level of unemployment and poverty in the society which may lead to increase in prostitution, corrupt practices among the masses, low standard of living, and higher crime rates in the society. Similarly, Paul and Moser (2009), postulated that unemployment can be the stressful, depressing and literally sickening experience. Unemployment has a great effect on the retrenched worker. It so difficult for the retrenched to get a new job on time. This can cause an adverse effect on the individual as well as the dependents that would have to survive only when a new job comes by quickly.

### **Loss of skills**

A retrenched is bound to be demoralized, the energy, morale, commitment needs to perform some of the obligations will be totally lost. A survivor can also have health challenges due to job loss. In Africa, Nigeria inclusive, families are closely knitted and interdependent on one another, especially for economic stability, the loss of one job can affect the whole family. This coincides with Jolley, (2012), who submits that people who were affected by retrenchment, find it very difficult to cope especially when they have family that absolutely depends on them. In such a situation, they will look for an alternative means to satisfy the needs of their families, and the means might be through legal or illegal ways which are not desirable for any meaningful development.

### **Survival syndrome**

The retained staff sometimes display a negative attitude on their jobs even to the customers subsequent to retrenchment. This survival syndrome can be described

as the mixed bag of behaviour's and emotions often exhibited by employees following organizational laying off. This is because Banks have often neglected the adverse effects of retrenchment and do not consider the difficulties in motivating survivors to achieve greater productivity which is paramount to organizational success and employee job satisfaction. Work overload Retrenchment has serious effects on the survivors. Most times, the survivors are faced with additional responsibility without commensurate reward. The survivors also confront difficult situations such as additional tasks, fear, and reduced commitment which causes fatigue and ultimately leads to dissatisfaction and if not properly handled will affect the organization.

### **Loss of self-concept**

It is expected that a retrenched worker suffers the loss of self- concept, which is a retrenched worker sometimes worry about what other people think about due to loss. It also has an effect on the survivors because they also have a negative mindset about their colleagues because their colleagues are going through uncertainty and discomfort after creditable service to their organization. This also supports Jeffrey, Kurebwa (2011), who states that the effect of staff retrenchment does not lie on the staff affected only, it also affects those that remained in the service. He further stated that the consequences are also on the Bank because the remaining staff will not be able to discharge their duties very effectively. These may seriously affect the overall performance of the employees in the organization.

### **Conclusion**

Retrenchment is inevitable in workplaces especially in Nigeria Bank, due to the global financial crises that are soaring all over the globe. However, the Nigerian situation is deeply affected by corrupt practices being practised by the executive management in some of the banks which are a serious concern for the achievement of economic sustainability. For Nigerian banks to remain in business efforts should be geared towards curbing of economic downturn and compete with the global economy.

### **Suggestion for Improvement**

- The Central Bank as a regulatory body should come up with reformation policies that will enable the banking sector to stabilize the banks.
- Banks should also comply with the policies because those policies are for their effective performance. The banking sector should be able to give

prior notice to the workers to be retrenched rather than having shocking news that they have been a lay-off.

- The banking sector in Nigeria are not transparent and fairness in their operations. They are full of atrocities and corrupt practices. In Nigeria, the last consolidation exercise was marred with corrupt practices which are a treat for the attainment of sustainable development. It is imperative that banks that survived the consolidation exercise should build integrity in order to reclaim customers trust in them.
- Government has the task of adequately responding to the issues and challenges of ensuring that the banking sectors comply fully with labour regulations guiding termination of employment. Example, regarding retrenchment, the Nigeria Labour Act declared that the process in any organization must be done in transparent and objective ways, Uvieghara, (2000). However, Nigerian banks had ignored this declaration.
- The banking sector should desist from all manner of sharp and unethical practices that are lingering in most banks and should endeavour to adhere to the laid down guidelines and rules during staff retrenchment.
- The Nigerian stakeholders that are responsible for monetary and financial stability should ensure that competitive conditions in banks in order to maintain some stability in the sector.
- The management should take palliative measures to ensure the surviving workers are not imperilled to prolong of job insecurity, as this will encourage a clear career path and less anxiety.

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