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Downsizing and Effectiveness in Organizations: A Study of Access Bank and Ecobank, Nigeria

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Abstract

Downsizing has become one of the most popular strategies being used by organizations in an effort to survive and compete in the current business scenario. This study is an attempt to systematically examine the reasons for and the implications of downsizing in organizations using selected banks in Nigeria. It also evaluates the downsizing programme of Access bank and Ecobank as well as examining the impact of downsizing in these banks on the employee-victims and survivors as well as the organizations. An in-depth interview method was used to gather primary data from respondents, while secondary data were generated from books and journals. Findings show that while downsizing is used as a strategic tool to reduce cost and increase effectiveness or efficiency in the banking industry, it is a strategy used during mergers and acquisition and financial meltdown to reduce excess staffing, apart from being a matter of bank policy. The study found that there are both negative and positive impact of Downsizing on the employee-victims, survivors and the organization. Based on these findings, the study, among other things recommends that the banks should recognize the need to explore and exhaust all other forms of cost-saving and to always use downsizing as the last resort in their effort to restructure their organizations.

Keywords: Downsizing, effectiveness, and organization.

Introduction

Heightened competitiveness and greater struggle for survival among organizations have continually played out in the past few decades as a result of the opening up of new markets, deregulations, and developments in information technology, forcing organizations to take a critical look at the traditional ways of conducting business in our society (Venkatraman and Henderson, 1998). This development has made organizations including banks to begin to realize the need to reduce costs in order to remain competitive in this turbulent scenario.

According to Bhattacharyya and Chatterjee (2005), this need has provided the impetus to organizations to initiate a spate of organizational change efforts such as restructuring, lay-offs, downsizing and right-sizing of the organization. Cascio (1993) observes that among all the organizational change efforts, downsizing appears to be increasing in popularity. So much so that today, downsizing has become a favoured strategy of companies attempting to cope with the changing times (Mishra and Spreitzer, 1998). The prime catalyst for the majority of downsizing

activities in organizations is the objectives of reducing the cost of doing business and increasing an organizations level of efficiency, effectiveness, productivity and competitiveness (Cameron, 1994). This of course translates to improving the overall organizational performance as well as enhancing such organization's profitability. In an attempt to counter the escalating problems of poor productivity, plunging bottom lines, overstaffing or high overheads, downsizing has been increasingly emerging as an oft-used strategy by organizations (Bhattacharyya and Chatterjee, 2005).

However, various scholars have come up with varying definitions of downsizing, in principle. Most of them seem to agree that downsizing would primarily involve a reduction of population in an organization's workforce (Mentzer, 1990). But looking at downsizing narrowly as a means of reducing head count in an organization's workforce might prove to be a short-term approach since such an approach has the potential to give rise to enormous negative consequences on the individual employee and the organization as a whole (Cascio, 1993; Davidson, Worrell and Fox, 1996). Downsizing in its most extreme form may turn into an across-the-board cut in personnel or a refocus on core businesses and a disposal of peripheral ones (Noer, 1993).

Many organizations have gone under as a result of several reasons of mismanagement, bankruptcy, and high levels of competition. Many more organizations also went under before and after economic recession. In the banking industries, downsizing often rears its head in times of mergers and acquisitions of banks. Although, majority of downsizing research has been conducted in the United States, still, the contraction of work forces has not been confined to US firms, but has occurred throughout the world (Littler and Gandolfi, 2008).

Baumohi (1993) accused many US organizations of "dumbsizing" instead of downsizing because of the deleterious actions taken in pursuit of getting smaller. This frenzy of downsizing activity has resorted, however, from the fact that almost all organizations have had to acquire more employees than are needed, especially managers. This is partly a reflection of the "bigger is better" ethics where more employees and larger units were traditionally defined as an indicator of effectiveness, as a reward for successful managers, and as a measure and source of power and status.

However, Gandolfi and Hansson (2010) assert that since 2008, organizations have experienced occasional dull economic climate due to the wave of mergers and acquisitions of industries in Nigeria, especially in the banking industry which has brought with it a sense of fear and anxiety of job losses among employees in all cadres of most organizations. Though there are elaborate literature on redundancies, the focus, has however, been on positive impact of downsizing to various organizations. This study therefore explores in details, downsizing and its effectiveness in engendering organizational effectiveness from a dual perspective. That means from the perspective of the organizations and employee-victims and survivors within the context of selected banks in Nigeria.

The Problem

Banks all over the world are witnessing changes that have resulted from globalization and technological innovations. Nigerian banks, like their counterparts in other parts of the world are known to operate multiple branching systems that are commercially oriented. However, the most noticeable changes in the Nigerian banking industry occurred in 2007 when there was a drastic decline in the value of the Naira from N113 which was equivalent to a dollar to N126. The decline in the naira value caused Nigeria's foreign reserves to fall from 10.27 billion dollars to 8.29 billion dollars (Oke, 2006).

However, the Nigerian banking sector was dominated by the big four banks - First Bank of Nigeria plc, United Bank for Africa Plc, Union Bank of Nigeria plc and Afribank Plc. Each bank, including the new entrants, was required to maintain a minimum holding at the central Bank of Nigeria (CBN) to the tune of N2 billion Naira from 2001 (Ezeoha, 2006). This decision did not last long as it led to the setting up of many weak banks, making it difficult for these financial institutions to finance major investments in the economy and lending was also poor, this allowed corrupt businessmen to set up bogus banks with no solid financial base and little or no financial management expertise or experiences. This undoubtedly tainted the Nigerian banking industry, resulting in the greatest criticism of the Nigerian banking sector from the international community due to increased number of weak banks operating in the country. Government therefore took steps to consolidate the banks and instituted the law whereby no individuals or groups could establish a bank without an initial deposit of N25 billion with the central bank of Nigeria (Oke, 2006). This law of financial adequacy was designed to address and checkmate the intentions of the business moguls who intended to open a bank only to fold it up the next year.

According to Agwu and Carter (2004), the central Bank action of raising the minimum financial holding from N2 billion in 2005 to N25 billion in 2009 was widely accepted and hoped that it would make banks in Nigeria stronger. However, with the minimum financial holding requirement of N25 billion, the number of banks in Nigeria was reduced from 98 to 25 and the banks were now able to maintain 93.5% of the deposit liabilities of the banking system. The reforms assisted in putting the banks in a better position to develop new technologies that will help to improve the ways of doing business as well as the banking environment (Agwu and Carter, 2014). This development in the banking sector in Nigeria, threw up downsizing as one of the most popular strategies used by the banks in an effort to survive and compete in the current business scenario. Downsizing has often times had negative rather than positive effects on both organizations and individuals (Brockner, 1988; Henkoff, 1990; and Cameron, 1997). But despite its attendant negative effects on both organizations and individuals, organizations, all over the world including the banks, frequently used it as a rescue strategy when faced with excess capacity, bloated employment ranks and declining efficiency. The intriguing questions remain: Why do banking organizations downsize? How do banking organizations downsize? What is the impact of downsizing on the employee-victims and the banking organizations? An attempt to provide answers to these posers added to the curiosity and imperativeness of this study on Downsizing and effectiveness in organizations: a study of selected banks in Nigeria.

Objectives

The objectives of the study include:

i. to examine the reasons for downsizing in banking organizations.

ii. to evaluate how the banking organizations downsize.

iii. to examine the impact of banking organizations' downsizing on the employees (Victims and survivor) and the organizations.

iv. to recommend strategies for successful downsizing in the banking sector.

This study in a way reopens discussion on alarming rate of unemployment resulting from organizations' downsizing in Nigeria and the recommendations certainly will contribute towards resolving the problem.

The Concept of Downsizing

Littler and Gandolfi (2008), stated that the term "downsizing" originated from the American automobile industry. In their analysis, they stressed that the average American car in the late 1960s and early 1970, weighted about 3 tons and more than 15 feet long with a massive engine size ranging from v6 to v8. But, the oil crisis of 1973 necessitated the need for smaller fuel efficient cars. The replacement of the long and heavy duty cars with the smaller fuel efficient cars was then termed "downsizing". Thus, the concept of downsizing could be said to have emerged from a number of disciplines and drawn upon a wide range of management and organizational theories. Agwu and Carter (2014) observed that "downsizing is a set of activities undertaken by the management of an organization to improve organizational efficiency, productivity, and/or competitiveness". Interestingly, Budros (1999) defines downsizing as an organization's conscious use of permanent personnel reduction study in an attempt to improve its efficiency and/or effectiveness. The implication of the definition is that we place the conscious use of permanent personnel reduction at the heart of downsizing. The reason is that most scholars not only associated the process of downsizing with the process of reducing the size of the organization, they also agreed that downsizing is something intentionally undertaken by the organization. In this way, downsizing is viewed as a planned elimination of positions and or jobs and it is a relatively recent management strategy (Mishra and Spreitzer, 1998). The trend has however, become a strategic weapon of mass cleansing adopted by most troubled organizations. Now, from the above perspective, the study assesses the reasons for banks' downsizing.

Why do Banks Downsize?

This question can be approached from a variety of perspectives by researchers, ranging from economic imperatives, institutional, ideological and strategic perspectives (Bhattacharyya and Leena Chatterjee, 2005). Kets de vries and Balaze (1997) feel that downsizing is often a price paid by organizations for previous mismanagement and strategic error in reading the market by the executives of the management cadre. Nelson and Burke (1998) observe that globalization of the

market place, technological advances, and growing importance of the service sector, coupled with global benchmarking with competitors in terms of overhead costs, are some of the market forces that have motivated organizations including banking organizations to resort to downsizing.

Some organizational benefits expected from downsizing may include increase in productivity, improved quality, enhanced competitive advantage, potential regeneration of success (Nelson and Burke, 1998), lower overheads, less bureaucracy, more effective decision-making, improved communication and greater innovativeness. In broader terms, the various perspectives to understanding why banking organizations downsize may be classified thus:

a. **The Economic Perspective:** This perspective rests on the assumption that top management actions are inherently rational and that downsizing is normally undertaken with a view to increasing an organization's future productivity and economic performance (Mckinley, Zhao and Rust, 2000). But it can also be argued that even though downsizing may be to reduce costs, it may be offset by increases in other expenses arising from negative consequences of downsizing. Krishnan and Park (1998) have argued that researchers are yet to conclusively prove that downsizing result in improved financial performance of a firm. But the recent development in the banking sector where young girls are recruited as marketers with set targets to woo investors to the bank shows that downsizing can improve the financial performance of the bank.

b. **The Ideological Perspective:** Ideological variables as determinants of downsizing according to McKinley, Moe and Parker (1998) have identified the ideology of de burcaucratization which provide a cognitive framework in which the concept of downsizing gain legitimacy and the ideology of self-reliance of the employee which stressed that, ultimately, it is the employees who should be responsible for his career welfare and job security instead of relying on the carcer. The bureaucratization ideology recommends the reduction of hierarchies which in turn displaced middle level managers from their jobs leading to workforce reduction.

c. **Institutional Perspective:** This perspective is anchored on the fact that the search for legitimacy and reduction of uncertainty are more potent motivators for downsizing than economic efficiency and profits (McKinley, Zhao and Rust, 2000). This perspective states that downsizing has taken on the status of an institutionalized norm and so legitimize its adoption as a strategy by organizations including banking organizations. Three social forces have been identified as motivating downsizing as institutional norm. They include constraining, cloning and learning which implies getting leaner and smaller as a matter of right as well as imitating the competitors and following their actions.

d. **Strategic Perspective:** This perspective according to Dewitt (1998) has attempted to give a broader definition to downsizing to include not only reduction of manpower, but also a reduction of non-human resources of the organization which include

retrenchment, downscaling and downsizing. The strength of this approach according to Bhattacharyya and Chatterjee (2005) lies on highlighting a relatively unexplored aspect of viewing downsizing as a strategic choice made by the organization in response to firm level and industry-level influences, different from ideological and theoretical perspectives taken by other researchers. Here, what matters to the organization is the choice of downsizing as a strategy.

Evaluation of Downsizing in Access and Ecobanks.

Access Bank is a large financial service provider with an asset base in excess of 12.6 billion dolars (N2.02 trillion) as of February, 2012 (Central Bank report, 2014). In 2007 Access Bank began international expansion drive. The bank as at February, 2012, has its subsidiaries in Burundi, Cote d'voire , the Democratic Republic of the Congo, Ghana, Rwanda, Sierra Leone, the Gambia, Tanzania, United Kingdom and Zambia. Access Bank received its license from the Central Bank of Nigeria and got listed in the Nigerian Stock Exchange in 1989, and listed on the Nigerian Stock Exchange in 1998. In 2005, Access Bank acquired Marina Bank, and Capital Bank by merger in 2011. The bank in talks with Central Bank of Nigeria also acquired Inter-Continental Bank in January 2012,

Access Bank announced conclusion of its acquisition of Intercontinental Bank, creating an expanded Access bank, one of the largest four commercial banks in Nigeria with over 5.7 million customers, 309 branches and over 1,600 Automated Teller Machines (ATMs) and about 1,500 employees. As a result of the completion of the acquisition process, the bank on Friday, January, 28, 2012 terminated the employment of about 1,500 employee of acquired Intercontinental Bank (Daily Trust, February, 16, 2012). This of course shows that mergers and acquisitions in the banking industry have always been characterized by downsizing of staff or personnel.

However, Ecobank is not an exception under the above-reviewed circumstances, as the bank immediately after its merger with Oceanic Bank; Ecobank sacked over 1,250 staff (Daily Trust, Feb. 16, 2012). Though Ecobank's downsizing procedures could be said to include some measures of effectiveness according to the statement credited to (Businessnews.com.ng posted at 12:26pm) which states "As the bank continues to acknowledge and reward exceptional performance, it also recognizes after careful review, the need to disengage staff and provide severance pay to those affected in agreement with the respective employee unions"

As Jibril Aku, the Managing Director of Ecobank observed, "our focus in the new enlarged Ecobank is to ensure smooth integration of the two banks as soon as possible while working to improve the quality of service to our customers and operational efficiency" The Director in another development stated that the bank understands that people are key assets thereby making the bank to emphasize on the need to reward the bank best performers, and open up new opportunities for talented and committed people to join the bank as permanent

employees.

The evaluation of Access Bank and Ecobank's downsizing becomes quite obvious that there are a number of reasons why organizations downsize their employees; mergers, acquisitions, loss of profit, change in management, economic crisis and increase in technology. Thus downsizing as a strategy could be effective in organizations when it is properly planned for. However, it is important to note at the planning phase, that the received fairness of the downsizing strategy and its concomitant changes work condition are very critical inorder to reduce the negative feelings in the survivors and victims of any layoffs (Brockner, 1992)

The Impact of Downsizing on Employees (Victims and Survivors) and the Organizations.

Downsizing is one exercise that almost affects all the units or spheres in organizations. Its impacts are positive and negative on the organization's employee-survivors and former employee-victims and the organization. When organizations downsize, the volume of work generally remains constant. This makes the surviving employees saddled with additional responsibilities which will lead to organizational efficiency. But in a poorly performing economy, trimming workforce will keep the business afloat. Organizations downsizing may be seen in a positive light by stock holders and business owners, but layoffs generally cause a negative business image for potential employees and existing customers. This negative impact can hurt the organizations' ability to hire and retain top talents needed to grow the business in future. At the employee-survivors level, some employee-survivors experience low moral and might not want to stay in the organization if they are now overworked.

Nevertheless, some of the survivors also feel happy and fulfilled having survived the sack exercise. However, for the employee-victims, some of them become despondent. They equally lost confidence in their skills and ability and can become angry creating a psychological pain that might require counseling. Even though downsizing appears to create an illusion that some positive actions are being taken to enhance the fortune of the organization, one prime casualty of the process seems to be the way in which people affected by the exercise are dealt with (Kets de Vries and Balazs, 1997). Findings from literature on this aspect including their coping strategies, have been summarized as follows: survivors increase stress and guilt (Brockner, 1988), Shah (2000) comments: a firms post layoff success is contingent upon the reactions of the people in its surviving workforce. Other negative responses exhibited by survivors of downsizing are depression and lethargy (Applebaum, Simpson and Shapiro, 1987), perceived violation of the psychological contract (Kets de vries and Balazs, 1997; Turnley and Feldman, 1998; Singh, 1998); lower commitment, increased absenteeism, turnover (Burack and Singh , 1995), decreased loyalty to organization, fear of further cutbacks, de-motivation, unproductive workforce (WeakLand, 2001) and diminishing expectations regarding future prospects in the organization (Cascio, 2003). On the other hand, some empirical studies have found positive effects on survivors of downsizing. These include,

increased loyalty (Emshoff, 1994), viewing downsizing as an opportunity for personal growth (Henkoff, 1990). Mishra and Spreitzer (1998) say that survivors who trust the top management prior to and after downsizing and

perceive the process to be just, are more likely to exhibit constructive responses to the phenomenon.

Moreover, empowerment and job redesign would give survivors the confidence in their individual capacity to cope with the threat of downsizing and would result in their exhibiting more active and progressive responses (Bhattacharyya and Chatterjee, 2005). For the victims, apart from the resulting financial distress and social dissociations, a major issue for the victim is perceived violation of the psychological contract (Kets de vries and Balazs, 1997) which was earlier stated and can result in an unwillingness to trust future employers of labour and a greater tendency to work for their self-interest rather than the organization's interest. Victims normally resort to symptom-focused coping strategies or problem-focused coping strategies (Leana and Feldman, 1990) to deal with the trauma of being laid-off. For the organization, De Meuse, Vanderheiden and Bergmann, 1994) concluded that firms that engaged in layoffs continued to fare worse in terms of financial performance than organizations which did not. But organizations that engage in 'pure employment' downsizing (permanent reductions in personnel without any decrease in assets) did not show significant higher performance (Cascio, Young and Morris (1997). However, organizations that downsize personnel along with a restructuring of their assets showed higher financial performance than other firms, which is the case in Access Bank and Ecobank which are now waxing stronger financially after downsizing. Apart from a reduction of the work force, downsizing also entails engagement of effective leadership in the organization. The involvement of competent and knowledgeable senior managers who are dynamic, accessible to employers, and able to articulate a vision would increase the likelihood of positive outcomes for the organization following downsizing.

Methodology

The study employed a qualitative method and made use of both primary and secondary data sources. Primary data were sourced through in-depth interviews while secondary data were collected through books, journals and other relevant materials including bulletins from banks.

To obtain the primary data for the study, simple random sampling was employed to select 6 branches of Access Bank and 6 branches of Ecobank from the Six geo–political zones in Nigeria. The respondents were drawn from the management or employers, the senior staff (survivors), the senior staff (victims), the junior staff (survivors) and the junior staff (victims). The total population for the study was estimated at 10,014. The sample size of 385 was drawn from the population using Taro Yamani formula

$$\frac{n = n}{1 + N(e)^2}$$

Where:

n = Sample size

N = population

I = constant

E = error of level of significance (accepted error at 5% i.e 0.05).

Purposive sampling technique was used to select the respondent in this order: management staff – 85, senior staff (survivors) – 60, senior staff (victims) – 50, junior staff (survivors) – 120, and junior staff (victims) – 70.

Discussion of Major Findings

The following findings were obtained after in-depth interview with the respondents and the opinions of the management and the employees both survivors and the victims.

Table I: Responses on whether downsizing has negative psychological and behavioural reactions among categories of employees affected.

Categories of Respondents	Yes	No	Total
Management	35	50	85
Senior Staff			
Survivors	40	20	60
Victims	47	3	50
Junior Staff			
Survivors	80	40	120
Victims	65	5	70
Total	**267**	**118**	**385**

Source: Field Survey, 2017.

Data in Table 1 shows that out of 85 management staff of Access and Ecobank, 35 respondents, representing 41% accepted that downsizing has negative psychological and behavioural reactions among categories of employees affected, while 50 respondents, representing 59% said that, there is no negative psychological and behavioural reactions among categories of employees affected. The table also shows that 40 out of 60 survivor-respondents among the senior staff of the two banks agreed to the fact that downsizing has a negative psychological and behavioural reactions among categories of employees affected representing 67%, while 20 out of 60 survivors – respondents representing 33% said downsizing has no negative psychological and behavioural reactions among categories of employees affected.

Among the victims, 47 out of 50 respondents representing 94% agreed to the fact that downsizing

has negative psychological and behavioural reactions among categories of employees affected while 3 victim-respondents representing 6% disagreed to it. Among the junior staff, 80 out of 120 survivor-respondents representing 67% agreed to the fact that downsizing has negative psychological and behavioural reactions among categories of employees affected, while 40 survivor-respondents, representing 33% disagreed to it. Again, 65 out of 70 victim respondents, representing 93% agreed to the fact that downsizing has negative psychological and behavioural reactions among categories of employees affected, while 5 out of 70 victim respondents representing 7% disagreed to it.

Table II: Responses on whether there are positive and negative effects of downsizing on employee – survivors, employee- victims and the organization.

Categories of Respondents	Yes	No	Total
Management	40	45	85
Senior Staff			
Survivors	50	10	60
Victims	45	5	50
Junior			
Survivors	100	20	120
Victims	60	10	70
Total			**385**

Source: Field Survey, 2017

Data in Table II show that 40 respondents out of 85 respondents in the management cadre, representing 47% agreed that downsizing has both positive and negative effects on employee – survivors, employee – victims and the organization, while 45 respondents, representing 53% disagreed to it. Among the senior staff, 50 survivors – representing 83% agreed to the fact that downsizing has both positive and negative effects on employee – survivors, employee – victims and the organization as well, while 10 survivor – respondents, representing 17% disagreed to it.

Among junior staff categories, 100 survivors – respondents representing 83% agreed that downsizing has both positive and negative effects on employee – survivors, employee – victims and the organization, while 20 survivor – respondents, representing 17% disagreed to it. 60 victim – respondents, representing 86% agreed that downsizing has both positive and negative effects on employee – survivors, employee – victims and the organization, while 10 victim – respondents, representing 14% disagreed to it.

Table III: Respondents view on whether there are adverse effects of downsizing on productivity and effectiveness of the individual and the organization.

Categories of Respondents	Yes	No	Total
Management	56	29	85
Senior Staff			
Survivors	50	10	60
Victims	40	10	50
Junior Staff			
Survivors	90	30	120
Victims	65	5	70
Total	**301**	**84**	**385**

Source: Field Survey, 2017.

Data in Table III show that 56 out of 85 management staff of the selected banks, representing 66% agreed that downsizing has adverse effects on productivity, effectiveness of the individual and the organization, while 29 respondents, representing 34% disagreed to it. Among the senior respondents, out of 60 representing 83% agreed that downsizing has adverse effects on productivity,

effectiveness of the individual and the organization, while 10 survivor – respondents representing 17% disagreed to it. Again, 40 victim – respondents out of 50 representing 80% agreed that downsizing has adverse effects on productivity, effectiveness of the individual and the organization, while 10 victim – respondents, representing 20% disagreed to it.

Among the junior staff category, 90 out of 120 survivor – respondents agreed that downsizing has adverse effects on productivity, effectiveness of the individual and the organization, while 30 survivor – respondents disagreed to it. But 65 out of 70 victim – respondents, representing 93% agreed that downsizing has effects on productivity, effectiveness of the individual and the organization, while 5 victim – respondents, representing 7% disagreed to it.

Conclusion

From the study, it can be concluded that organizations, during the process of downsizing generally appear to pay less attention to the people factor in some cases while some do as rightly pinpointed out by the Managing Director of Ecobank plc. For those organizations which do not pay attention to people factor, the result is a host of negative psychological and behavioural reactions among all three categories of employees affected by downsizing process, namely, survivors, victims and the organizations. These reactions, however, adversely affected productivity and effectiveness of the individual employees-survivors. The study also reported the evidence of both positive and negative consequences or impact of downsizing on employee-survivors, employee-victims and

the organizations, (both financially and otherwise). This indicates that downsizing alone cannot ensure an improvement in firms' performance but a contribution of other factors like the people factors can be a considerable action.

Recommendations

In the light of the above conclusion, the study now put forward the following measures as recommendations to strengthen the Nigerian banks in their downsizing programmes.

1. Banks should recognize the need to explore and exhaust all other forms of cost-saving and to always use downsizing as the last resort.
2. Management should develop time frame for downsizing programme which means adequate plans should be put in place for downsizing.
3. Attention should be paid to the need of both survivors and victims
4. Internal resources should be used to identify areas of redundancy and inefficiency and then targeting those areas for downsizing.
5. Severance policy should be adopted by all banks for their employees.
6. Bank employees should be seen as valuable assets by the banks' management.
7. Banks should develop and initiate genuine and open communication with their employees for input in the programme of downsizing.

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