

# A REVIEW ON EFFECTS AND CHALLENGES OF STAFF RETRENCHMENT ON ORGANIZATIONAL PERFORMANCE OF COMMERCIAL BANKS

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**Abstract:** Rate of retrenchments is directly proportional to unemployment, which may lead to economic recession in the organization as well as the nation. Organizational performance is the key factor to mitigate staff retrenchment in any organization. Therefore, this paper critically reviewed the related literature on the effects and challenges of staff retrenchment on organizational performance of commercial banks such as the Industrial Law and Right to Retrench, effect of employee downsizing on their performance, effects of retrenchment and staff rationalization and others. The paper also identified the gaps that need to be bridged globally with suggestions for more research to be conducted. The paper concluded that there is need to conduct a national or international research on the effects and challenges of commercial banks' staff retrenchment, how retrenchments affect the banks, the retrenched and retained staff along with other stakeholders and examining whether the commercial banks are following the laid down guidelines or due process during staff retrenchment and others.

**Key Words:** Retrenchment, unemployment, organizational performance, effects, downsizing, re-structuring.

## INTRODUCTION:

Organizations have an important role in our daily lives which depend on the organizational performance and therefore, successful organizations represent a key ingredient for developing nations. Thus, many financial analysts consider performance in organizations and institutions similar as an engine in determining the economic, social and political progress. Continuous performance is the main focus of any organization because only through that organizations can able to grow and progress. Thus, organizational performance is one of the most important variables in achieving organizational objectives especially on how to manage human capital which includes recruitment and retrenchment issues.

Retrenchment means termination of the contract of service of the employees in a redundancy situation, which arise from several factors such as restructuring, reduction in production, mergers, technological changes, business take-over, economic downturn and others. A careful review of literature on the factors influencing retrenchment indicates numerous dynamics within and surrounding organizations. Technological change in commercial banks enhance quality and efficiency in the workplace, organizations are taking advantage of new technologies to achieve competitive advantage in prevailing market. Banks faces serious challenges in introduction of new technology. Overcoming the challenges will definitely enhance greater production by fewer employees resulting in retrenchment. According to Wilkinson & Redman (2009) as technology advances, the skills needed to keep pace with the hardware and software also changes. Technological changes may render the banks' services uncompetitive for the existing volatile market that may lead a large number of employees leaving the banking sector.

Wilkinson & Redman, (2009) said that in carefully planned and well-executed mergers and acquisition between banks, various functions are rationalized. High numbers of jobs are eliminated as unessential operations are consolidated. Many units are scrapped as banks combine, either because they no longer fit into the strategic

market that lead some banks to distress. Sometimes enormous businesses are shed after acquisitions, which lead to staff retrenchment in banking sector.

### **AIM:**

The aim of this research work is to present a review of literature on effects and challenges of staff retrenchment on organizational performance, putting in to consideration in identifying a gap that needs to be bridged with suggestions for more research to be conducted on staff retrenchment and organizational performance.

### **LITERATURE REVIEW OF RETRENCHMENT ON ORGANIZATIONAL PERFORMANCE:**

Worrall, et al (2000) conducted a study on psychological well-being at work, research evidence and current issues. It was shown that, there are negative impacts of downsizing in the public sector such as reduction of job security among managers and feelings of loss of control over the situation. And also the uncertainty caused by the possible loss of their own jobs cause severe stress reactions in the survivors and there are sharp increases in the work overload, longer working hours, and fewer vacation days, leading to inefficiency and burnout.

McCourt (2001) made an evaluation towards a strategic model of employment reform in developing countries, explaining and remedying experience to date. It was found from the explanation obtained from responded that, pay is an integral part of the reform package. Retrenched staff suffers a lot in terms of hunger, lack social care, cannot provide the basic needs of their families and depend on benevolent relatives and friends especially in Nigeria.

Allen, et al (2001) conducted a research on survivor reactions to organizational downsizing. Does time ease the pain? Based on their findings they said that job attitudes such as job satisfaction, organizational commitment, job involvement, role overload, role clarity, satisfaction with top management, and turnover intentions become less favorable after downsizing. Downsizing seems to have a negative impact on a number of work-related attitudes. Downsizing had a significant impact on work attitudes and the impact varied over time, and that the initial impact was generally negative. For example, satisfaction with top management increased across time, while job involvement decreased. Employees perceive retrenchment to be based on employee performance.

Mishra R.K., (2001) explored that insolvency procedure and corporate restructuring, there was an increase in workload, whether as the result of failure to recruit additional staff as output increases, failure to fill vacancies, or actual retrenchment carried out just to maintained or increases production or services.

Baguma and Matagi (2002) in their study on poverty policy perspectives, effects of the retrenchment exercise on organizational performance and quality of work life among Ugandan public officers. It was found that counselling section should be designed to carter the psychosocial and emotional challenges that staff's encounter during retrenchment processes. These programs may decrease the uncertainties about retrenchment; stabilize the emotions and performances of staff members on the job. Workshops should always be encourage, which will help in reducing the possible impact of the retrenchment process on the part of the human resource personnel. Unemployment leads to economic waste and causes human suffering.

Modise, S. (2002) made a study on the impact of retrenchment of employees and measures to alleviate it, training layoff scheme article. The study revealed that retrenchment had an adverse effect on the retrenched employees and these effects range from being uncertain about their futures and experiencing low self-worth. And also employees' status, income and future depend on properly structured retrenchment programs at the inception of their career.

Beylerian, M. and Kleiner, B. H. (2003) in their study on the downsized workplace. They summarized their findings and identified three aspects that characterize the downsizing process and distinguished it from other types of organizational changes first, the top management – with little or no employee participation, usually dictates the downsizing process. Second, downsizing efforts usually focus more on financial efficiency goals than human effectiveness goals. And lastly, people will be hurt, that is there is no "win-win" situation in a downsizing

process.

Kalimo, R., et al. (2003) conducted a research on the effects of past and anticipated future downsizing on survivor well being: An equity perspective. They extracted the following findings and reported that downsizing is a deliberate organizational decision, aimed at systematically reducing employees through an intentionally instituted set of activities with the direct purpose of improving organizational efficiency and performance.

Makawatsakul N, Kleiner, B. H. (2003) conducted a study on the effect of downsizing on morale and attrition manage. Based on their study they reported that the effectiveness of downsizing strategies is ultimately dependent on the reactions of both the survivors and leavers of the process. Thus, the survivors' behavior is critical for the slimmed organization's effectiveness. They concluded that most leavers expressed the process as 'unfairly' implemented and indicate that there were no clear criteria used to eliminate them from the organization.

Devine, K., et al (2003) in their research on stress-related outcome of organizational downsizing. The study revealed that, staff retrenchment has serious consequences on both the staff affected and also the staff on board. Based on their findings, they reported that it affects the staff psychologically, decreases staff commitment, creates job insecurity and affects mental and physical health.

Kusum, S. (2004) conducted a study on revisiting the survivor syndrome, the role of leadership in implementing downsizing. It was found that management usually overlooks the psychological effect of downsizing in terms of attitudes and emotions. The management leaves the survivors frustrated, anxious, and resistant with the “**wait and see**” attitude, a scenario also known as ‘**survivor syndrome**’. Survivors are the greatest losers when compared to leavers because they have to endure disillusionment, frustration and generally have a perception of insecurity. The author concluded that both management and affected employees also suffer adversely after downsizing has occurred.

Vermeulen L.P., (2005) in his study on perceptions of procedural justice in the retrenchment of managers. The study reported that, the way people exit from organization is likely to influence their perceptions and psychological reaction to retrenchment and unemployment outcomes. Also reported that, employees who experience involuntary retrenchment react more negatively to unemployment and are more likely to perceive retrenchment as a one-sided breach of psychological contract with the organization.

Gribble, LC and Miller, P (2009) conducted a research on identifying the psychological constructs underpinning the effects of retrenchment. The study reported that employees who have time to find other employment before they leave their former organizations are far better than those who are retrenched and have to leave the premises immediately. It must also be acknowledged however that pressure to find a new job is only one of the defined underlying psychological constructs. It must be seen as a part of a solution rather than a total solution to the effects of retrenchment. Loss of self-concept is based on how retrenched staffs believe how others will see them as a result of their retrenchment. They concluded that sacked staff could be expected to suffer a loss of self-concept and also how retrenched staffs worry about what other people think about them as a result of involuntary job loss.

Zatzick, C. D., Marks, M. L., & Iverson, R. D. (2009) conducted a research study on which way should you downsize in a crisis? As many organizations have been scrambling to figure out how best to restructure and cut costs without jeopardizing the valuable human capital that they had built and Managers have been inundated with advice on the dos and don'ts of laying off employees. But the truth is that there is no 'one size fits all' approach to downsizing. It was concluded that global economic downturn has forced many companies to make deep cuts to their work forces. Numerous retailers like Mervyn's and Circuit City Stores Inc. filed for bankruptcy or shut down altogether. Even companies like Yahoo, Google, American Express and Motorola have had to cut their work forces.

Gribble, L. C. & Miller, P (2009) made a study on employees in outplacement services; do they really get the help they need? They came out with their findings and report that, the effect of retrenchment on retrenches has been

well documented and can include stigma, loss of identity and self esteem, grief, destruction of existing habits and loss of social and support networks. It was discovered that self-esteem is said to be lost due to a loss of social support systems that can occur when a person is retrenched. Humans are able to constitute what defines themselves through their actions; therefore, the loss of social interaction through retrenchment is a critical issue influencing self-esteem. And also firms with effective retrenchment strategies take responsibility for assisting their retrenched staff into new positions in other words outplacement is designed to minimize the length of unemployment. They also reported that many employees who have been retrenched in previous periods of recession and placed in an outplacement program, which enable them gained employment within short period of time.

Rama-Rao (2010) conducted a study on dismissal and retrenchment effects where he lamented that dismissal likely to result in harmful psychological and physical health outcomes for retrenched employees who lose their jobs. Their experience leaves the retained staff with a negative mindset noting that their co-workers, mentors, coaches, and friends are going through uncertainty and discomfort after rendering a meritorious service.

Jeffrey, Kurebwa (2011) conducted a study on organizational Downsizing and its impact on Leavers and survivors. According to him 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 perform their duties effectively. These may seriously affect the overall performance of the employees in the organization.

Hassan, Tahir and Muhammad (2011) conducted a study on the retrenchment effect on job performance with mediating effect of work life balance. Based on their findings they reported that there is positive relationship between workload and work life balance. It reveals that on the time of survey, general observation regarding workload and work life balance was interrelated in the context of employee performance. It gives clue to the banking sector so that they can improve the employee's performance during recession or restructuring period and also create a balance between work and life and lastly if an employee has clear role in family and work, then he could avoid conflicting and stressful situations that ultimately maximizes the employee's performance.

Meier (2011) conducted a research on the changing recruitment landscape. Based on his finding he stated that Retrenchment could be devastating, it affects not only the financial security of the individuals and it also distorts personal worth and retrenchment exposes the sacked staff to uncertainties, since they cannot be certain for how long they will remain unemployed.

Mercy G. M. (2011) did a study on a survey of the criteria used by commercial banks in Kenya to determine employees to retrench. It was reported that:

- 75% of commercial banks have less than 500 employees, while 15% of the banks have over 1500 employees and 5% have between 500 and 1500 employees.
- 60% of commercial banks in Kenya were locally owned; while foreigners owned 20% and 20% are a combination of both local and foreign owned.
- 60% of commercial banks had retrenched once, 25% had retrenched twice and 15% had done it more than 3 times within the last 5 years.
- 45 percent of the banks engaged in retrenchment provide outplacement services to the employees leaving. These services include counseling on managing post-retrenchment effects. Other outplacement services include financial management and opening up of new businesses. However, 55 percent of the banks that had retrenched don't provide any outplacement services to the leavers.
- 5 percent of the respondents used the last-in first-out method as a criterion for retrenchment to a very great extent, 10 percent to a great extent, 35 percent to a moderate extent, 25 percent to a less extent, and 25 percent did not use the method at all.

Anaf et al (2012) conducted research study on policy environments and job loss, live experience of retrenched Australian Automotive workers. The study reported that if the process is not managed efficiently, retrenchment

could result in depression and consequently it may create demoralization; dampen organizational productivity, and increases voluntary retirement in the society. The management of organizations only evaluates employee's output during downsizing exercises, undermining employees' performances and limitations. They noted that individual's welfare resides in his state of mind or consciousness, which influences his level of satisfaction and usefulness in the community where he/she belongs.

Wandera, Hillary Thomas (2012) had studied on the effects of retrenchment/ staff rationalization. It was shown that the entire organization has high number of graduates with about 35% being degree holder within its ranks, 27% with diplomas and only 38% being certificate holders. Majority of staff with about 34% had worked for 11 to 15 years whereas those who had worked for over 25 years might have been retrenched and therefore a FIFO (first in first out) method could have been applied during the downsizing exercise as opposed to LIFO (last in first out). Alternatively those who were nearing retirement may have been retrenched. Majority of the employees who represent 75% were able to complete the task assigned to them and only 25% indicated that they do not accomplish the delegated work on time. This could be attributed to the fact that most of workers have been service for more than five years and are well versed with the duties. 85% of the staff believed that their productivity has increased and only 15% indicated that their productivity has reduced drastically. The study concluded that retrenchment / downsizing has showed a negative effect on employees who were currently serving with the K.T.D.A. L.td. Staff rightsizing may not necessarily be worse but the way in which the whole exercise is handled determines its failure or success.

Isrealstam (2012) did a study on retrenchment myths companies feed employees, he pointed out that retrenchment directly increases the higher level of unemployment and poverty in the society and which may led to increase in prostitution, corrupt practices among the masses, low standard of living, and higher crime rates in the society. And also retrenchments are the only solution to the employer's financial problems and are allowed to retrench merely because profits have dropped slightly or are expected to drop.

Hollenbarch (2012) conducted a study on the human side of retrenchment and reported that the measures for mitigating the effects of retrenchments are to provide pre-dismissal and post-dismissal counseling to all affected employees. Therefore, to mitigate the effects of retrenchments, there is need to put in place training program to augment personal financial skills, career goals management, and most importantly skills for developing small businesses. The introduction of voluntary retirement agreement may impose considerable financial burdens on the organizations that threaten employees' contributions to the organizations and their sense of control over the future. Retrenched employees faced tight competition in the labor market because they were not retrained to secure other forms of employment in the society.

Consolata N. Ochieno (2013) conducted a study on effects of retrenchment on organizational performance at the Telkom Kenya. It was established that over 60 % of the respondents cited that, there is a great improvement in work performance after retrenchment and there was also a high work effort following the same layoff, as there is a positive change in work effort and performance.

Rose, Ogbeechi (2015) made an Exploration into the socio-economic effects of retrenchment evidence from Nigeria and discovered that:

- About 2% employment were retrenched before one year of employment,
- 20% were retrenched after spending about five years working in the organization and 30% were also retrenched after working for about a decade,
- 40% of the staff had worked for more than a decade before retrenchment.
- About 60% of the staff retrenched were remained unemployment at the same time some their new income is lower the previous earning
- About 60% was shocked and confused at the sudden retrenchment,
- About 60% of them admitted that they lost total control of their plans for the future, comprising their retirement plans and educational prospects of their children and/or wards.

The study concluded that retrenchment has a detrimental effect on the individuals, their families and the society and retrenched employees are unhappy with their former employers, the society and the government, because of their inability to meet up with their family and social responsibilities.

Halima U. O. and Susan W (2015) conducted a research study on effect of employee downsizing on performance of retained workforce in commercial banks. They reported on job insecurity that 44.9% reported feelings of job insecurity, 49.0% reported no such feelings and 6.1% said gave no response. The effects of downsizing on organizational commitment is that 34.0% of the participants reported that organizational commitment did not change as a result of downsizing, 32.8% reported that organizational commitment had improved after downsizing, 16.6% reported that organizational commitment had reduced after downsizing and 16.6% had no idea. The effects of downsizing on motivation and morale is that 50% the participants reported that motivation and morale did not change as a result of downsizing, 25% reported that motivation and morale had reduced due to downsizing, 20 % reported that motivation and morale had improved and 5% had no idea. They established that job security; morale, productivity and workload had a significant influence on performance of retained workforce in commercial banks. And also recommended that managers should be cautious in implementing downsizing strategies that can impose such traumatic costs on employees, both on those who leave and those who stay.

Bozionelos, N. (2001) conducted a study on organizational downsizing and career development and reported that retrenchment reduces career opportunities of the employees and employees of the organization perceived that retrenchment would peg the growth of an individual in terms of promotion and better job opportunity. And also found that employees of the Jet airways realized that retrenchment in their company means poor growth in the aviation sector and limited job opportunities. This was also considered as the major setback for young crewmembers, which have just started their career.

Tourish, D et al (2004) conducted a study on downsides of downsizing, communication process and information needs in the aftermath of a workforce reduction strategy and stated that there is a tendency of the senior members in the organization to have the opportunity to get information about the organization and also have a prior knowledge of job changes during the process of retrenchment compared to other employees. This becomes the main issues for the middle level manager, as they are responsible for implementing all the changes in the organization.

Nirmala M.C., (2006) did a study on organizational rightsizing actors, processes and outcome and found that the psychological fall involved in losing a job is quite significant such as job insecurity, increased stress from heightened workloads, reduced self- efficacy and self-esteem. Decline in job satisfaction and organizational commitments are often the effects on individuals who have survived downsizing. The study pointed that the focus has now shifted from priority based on age and seniority to performance. However, other processes like clear and transparent appraisal systems, psychological contracts, and performance based pay and incentives are yet to catch up scientifically.

Tzafrir, S.S et al (2006) made a study on the downsizing and the impact of job counseling and retraining on effective employee responses. It was shown that systematic retrenchment is helpful for the organization because it improve their performance and efficiency in the long run. And also one of the major objectives of the Jet airways is to maintain their operational cost by reducing their manpower cost. However, the designing and implementation of the company retrenchment policy has been strongly criticized by public and protested by employees.

Kulkarni and Vasantrya.V (2008) conducted a study on impact of corporate downsizing on organizations with a special focus on Human Resource Management. It was revealed that the Government of India liberalized the economy and forced Indian organizations to reduce unsuitable or surplus manpower for improving productivity and ordered changes on the role of human resource management in the downsizing era specifically in recruitment, training, performance appraisal, transfers and compensation. The study concludes that downsizing has significant impact on all the sub systems of the human

Abhishek Tripathi (2014) conducted a research on globalization and downsizing in India and reported that there is a need to study and understand the various aspects of downsizing or staff retrenchment such as why and what are the reasons of downsizing in India. There are positive and negative effects of downsizing for organization and employees respectively. The positive effects are lower personnel costs, less bureaucracy, faster decision-making, better communications, increase in productivity/Competency, job enrichment, increase in stock prices. The negative effects found on employees are adverse psychological effects – anxiety, mental tension, stress, depression, breakup of social as well as personal life, social stigma of losing a job, breaking of psychological contract with the organization, difficulty in getting another job etc. Although the negative effects of organizations can be loss of goodwill, low rating of company, loss of trust among employees, unhealthy environment in the company, loss of productivity, failing to retain talent, failing to attract good candidates etc. it was concluded that the implementation of downsizing strategy should be carefully planned and performed by the organizations. To start with a clear and careful analysis of the effects of the retrenchment in the long run as well as in the short run is to be considered.

Jyoti Vishwakarma (2014) conducted a study on hiring and firing in India and reveals that it is mandatory to conform to various central and state laws that ensure and protect employees, there are regulations that firms need to conform when they want to hire such contracted labor. Workers are more aware of their rights under the law and they're more likely to seek the advice of an attorney if they think their employer has wronged them. Many workers are involved even by suing their employers for wrongful discharge or discrimination. The author concluded that there are many laws in public sector and private sector for the protection and welfare of permanent, contractual and part time workers, but very less people know the proper use of it to avoid exploitation by the employer. Many workers enter the contract agreement/bond without reading or without knowing the legal prospect and conditions of the contract. To avoid the misuse of laws workers enter into trade unions, which give them a sense of security.

#### **NEED FOR STUDY:**

Of all the available research articles reviewed so far (online or offline) on effects and challenges of staff retrenchment on organizational performance of commercial banks. It is observed that most of the studies were focusing only on effect of staff downsizing on the organization, effect of employee downsizing on performance, effects of retrenchment and staff rationalization, and the Industrial Law and Right to Retrench in Malaysia from a Human Resource Management Perspective. Therefore, the following are some of the gaps identified by the researcher that needs to be bridged.

- There is minimal research done on geneses, purposes and level of mass retrenchment in commercial Banks.
- Minimal research done on how the retrenchments affect the banks, the retrenched and retained staff along with other stakeholders.
- Very minimal research done on examining whether the commercial banks are following the laid down guidelines or due process in staff retrenchment.
- There is no research conducted on effects and challenges of commercial banks' staff retrenchment in Northeastern Nigeria.

#### **CONCLUSION:**

Based on the literature reviewed on the effects and challenges of staff retrenchment on organizational performance of commercial banks and analysis of discussion from the various scholars on same topic. It is concluded that there is need to conduct a national or international research on the effects and challenges of commercial banks' staff retrenchment, how retrenchments affect the banks, the retrenched and retained staff along with other stakeholders and examining whether the commercial banks are following the laid down guidelines or due process during staff retrenchment exercise. It is imperative to bridged the gap without limitations because staff retrenchment has become a global concerned, as the rate of retrenchments is directly proportional to unemployment which may lead to economic recession.

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