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IMPACT OF BANKS MERGER AND ACQUISITION ON THEIR STAFF ENPLOYMENT

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ABSTRACT

The characteristics of reforms induced mergers and acquisition of the banking industry creates doubts about its potentials of creating more employment of staff. While this consolidation no doubt has benefits, what is less clear is the effect of this consolidation on increase in employment of staff of the banks. In view of this observation certain issues arise on the desirability or otherwise of this imposed 'one fit all consolidation' exercises: will the increase in size of consolidated banks creates more employment in the banking industry?

The objective of the research is to identify the extent of impact on employment of recapitalized banks after the banking consolidation exercise. Descriptive research is adopted by this study. The sources of data for the study are secondary sources obtained from the banking supervision department of Central Bank of Nigeria which is related to the number of employees and total number of branches of all commercial banks in Nigeria as at the end of December 2009.The methods of analysis used for the study were multiple line graph, multiple bar chart, simple percentages and linear regression. Merger and acquisition results in Nigerian Banking Market have been positive in terms of employment, since 30, 846 jobs were created during 2005-2009 period. The study revealed that there was reduction in employment in the banking industry between 1999 and 2001 before the banking consolidation exercise. There was appreciable increase in employment from 2006 to 2008. Five banks account for 46.56% of total employment in the banking industry. Equally six banks account for 47.65% of total number of branches in the banking industry with UBA leading the park. In conclusion Banks should endeavour to increase the number of their domestic branches to increase employment in the Nigerian economy as it is only the number of domestic branches of banks that was a significant variable in explaining the variation in employment in Nigerian banks.

Key Words: Employment, Consolidated banks, Number of employees, Number of branches.

INTRODUCTION

The Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation reported that, of the 115 banks in operation in 1997, 47 were in varying states of distress, with an average ratio of non-performing assets of around 82 per cent. The restructuring of distressed banks starts with their being put under joint control through "acquisitions-in-trust" by the NDIC and the CBN for eventual sale to private operators. Six mergers between 1996 and 1998 resulted in 88 net job losses out of a total workforce of 1,860. Without the mergers, many of the banks would have been closed by regulators with the loss of all the jobs involved. Bankers warn that, although the worst of the crisis may be over, only 30 of the 82 remaining banks are serious operators. Recovery does not mean an end to restructuring as the industry is expected to shrink in both the number of institutions and active branches, although the latter already declined from nearly 2,500 to 2,200 between 1997 and 1999. Employment in the sector dropped from 78,514 workers in 1990-91 to 54,292 in 1999-2000, though this can be attributed to bankruptcies and closures and not wholly to Merger and Acquisitions.

The central bank of Nigerian's resolve to carry out reforms in the banking sector was borne out of the past of the nation's banking industry. Between 1994 and 2003 a space of nine years, no fewer than 36 banks in the country closed shops due to insolvency. In 1995 four banks were closed down. But 1998 may go down well in history as the saddest year for the banking industry as 26 banks closed shops that year. Three terminally ill banks also closed shops in 2000. In 2002 and 2003 at least a bank collapsed. The failed banks had two things in common – small size and unethical practices. Of the 89 banks that were in existence as at July 2004, when the banking

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sector reforms were announced, no fewer than 11 banks were in distress. According to the CBN, between 69 and 79 of the banks were marginal or fringe players.

The decade 1995 and 2005 were particularly traumatic for the Nigerian banking industry; with the magnitude of distress reaching an unprecedented level, thereby making it an issue of concern not only to the regulatory institutions but also to the policy analysts and the general public. Thus the need for a drastic overhaul of the industry was quite apparent. In furtherance of this general overhauling of the financial system, the Central Bank of Nigeria introduced major reform programmes that changed the banking landscape of the country in 2004. The main thrust of the 13-point reform agenda was the prescription of minimum shareholders' funds of 25 billion for Nigerian Deposit money bank not later than December 31, 2005. In view of the low financial base of these banks, they were encouraged to merge. Out of the 89 banks that were in operation before the reform, more than 80 percent (75) of them merged into 25 banks while 14 that could not finalized their consolidation before the expiration of deadline were liquidated (Elumilade,2010; Afolabi, 2004).

In the process of consolidation many bank CEOs and chairmen of boards lost their positions as a result of Merger and Acquisition. But more devastating has been the job losses across cadres in the industry. In many banks this has been done quietly, while in other banks, workers have been encouraged to resign with benefits. The governor of CBN had, at the beginning of the process admitted that "there will be job losses but the question then is whether, on a net basis, there will be more job losses after the consolidation than would have occurred"(Manukas 2006).

However, the characteristics of the kind of reforms induced mergers and acquisition of the banking industry creates doubts about its potentials of creating more employment of staff. While this consolidation no doubt has benefits, what is less clear is the effect of this consolidation on increase in employment staff of the banks. In view of this observation certain issues arise on the desirability or otherwise of this imposed 'one fit all consolidation' exercises: will the increase in size of consolidated banks creates more employment in the banking industry?

Human resources management within Merger and Acquisition environment is problematic due to changes in the general procedures and in the practices followed by the acquired companies to carry out various tasks, and also due to the growing competition between the employees of the merged parties. Most employees regard Merger and Acquisition as a threat to their jobs, since shareholders often demand limitations in the number of employed staff. Today's facts verify these fears as, during mergers, the number of employees working in the engaged companies is actually less than before.

Having said this much by way of background to the study, this study is thus designed to examine the impact of recapitalized banks on generation of employment in the banking industry.

LITERATURE REVIEW

For a financial institution, the decision to proceed to Merger and Acquisition is strategic rather than financial, and is taken in conditions of a bandwagon effect. The beginning of Merger and Acquisition series increases the odds for an individual bank to become an acquisition target. Given that a bank's relative size constitutes a greater acquisition deterrent than its profitability or efficiency, an individual bank may decide to proceed to an acquisition only to protect itself from takeovers. The wave of Merger and Acquisition is thus rising without there being any reasons of economic performance to justify such action (Schenk, 2000).

Human resources management within Merger and Acquisition environment is problematic due to changes in the general procedures and in the practices followed by the acquired companies to carry out various tasks, and also due to the growing competition between the employees of the merged parties. Most employees regard Merger and Acquisition as a threat to their jobs, since shareholders often demand limitations in the number of employed staff. Today's facts verify these fears as, during mergers, the number of employees working in the engaged companies is actually less than before. (Archontakis et.al.,1998, Georgakopoulou, 2000).

The restructuring process of European and global banking has brought substantial changes in the nature and quality of employment. This restructuring process is a result of not only the Merger and Acquisition wave observed in the last 15 years, but also of the massive introduction of new technologies into banking. The introduction of new technologies in banking preceded the Merger and Acquisition wave, whereas the latter has accelerated the restructuring process. This is because a bigger Merger and Acquisition wave may exploit new technologies in a more efficient manner and, most of all, it may also undertake to a great extent the cost for the application of these technologies (De Boyer et. al., 2000). Briefly, international experience and research detects the important quantitative and qualitative consequences of Merger and Acquisition in employment, such as the following:

1. Decrease in the employment of less specialised categories.
2. Important changes in the role of enterprise senior staff towards more complex and more flexible duties.
3. A relative increase in the employment of specialised and younger staff. Companies are relieved of less specialised or/and older excess staff through early or voluntary retirement programs.
4. Serious incorporation and compatibility problems among the various management systems, industrial relations and organisation of work.

These factors require careful preparation and may become crucial for a successful merger when deriving from different negotiation systems, collective regulation and definition of payment and labour terms (Georgakopoulou, 2000).

Staff employed in the financial sector is expected to increase production and productivity, and become more qualified and flexible during work. The demand for more skills mainly involves a very good knowledge and use of computers as well as general professional knowledge, which allow for multi-tasking (engagement of employed staff in various tasks). However, increased requirements on staff skills are not always combined with the necessary training courses or flexibility in working hours. The lack of investments in staff training is a very common practice in case of mergers, when the pressure to cut-down costs leads to staff replacement instead of the training of the existing staff. Victims of this restructuring process are back office, central office and, most of all, low-skilled tasks. These tasks are more and more electronically performed and the corresponding staff is limited or replaced with high-skilled employees, who may also respond to other duties. It has been observed that older people (in terms of age) and women are more susceptible to work changes of this type (De Boyer et. al., 2000, Nautemporiki, 1995).

The impact of this restructuring process on the older staff is of significant importance, due to the extent of the phenomenon, without of course underestimating the impact on the employment of women. The most common personnel reduction strategy that has been followed in European banking mergers is the preparation and implementation of early retirement programs. This procedure is often followed by banks and leads to a remarkable reduction in the number of employees over 55 years old. It is also often believed that the spread of early retirement programs constitutes a type of discrimination against older employees, who are considered to be incapable of adjusting to today's job requirements and to the new tools and techniques used (Uni-Europa Finance, 2001). Older employees are rarely given the opportunity by a banking institution to be trained in newly required aspects of their work. This fact contradicts the notion of lifelong learning supported by the E.U., as a measure to improve the competitiveness of the European economy and to fight unemployment. (Charalampidis, 1999).

Another fresh and common by now technique to reduce production costs in the banking sector is outsourcing, i.e. the decision to assign/ transfer duties such as maintenance, security, cleaning, movement of titles, transfer of material or money etc. to an outside firm, as well as the development of different distance banking services, like telebanking, phone banking etc. (Kanellopoulos et. al., 1998). The transfer of duties is one of the most important developments not only within the banking sector but also in the economy as a whole. Transfer of services in the banking sector initially involved non-core functions, such as cleaning, catering, maintenance and IT services. In the latest years, however, it is also used for providing core functions, such as customer service. Customer service and various sales functions are performed today by call centres, where a great number of tasks are carried out by low skilled and poorly

remunerated personnel and with almost no trade union activity.
The job of call centres is characterised worldwide by:
1. Unskilled work and duties that do not require particular training.
2. Loose chain of command.
3. Short-term contracts that create work insecurity.
3. Staff mostly consisting of young people and women.
4. Intensive working conditions including extended working hours.
4. Increased staff mobility, a fact that has been incorporated in the recruitment process, minimum salary and intensive training (Weber, 2000).

While employees in the banking sector consider these changes to be extremely negative, the contrary view also needs to be stated. According to this view, the new technologies as well as the M&A wave will not reduce the number of jobs in the financial services sector; they will redistribute these jobs among the new duties (Uni-Europa Finance, 2001). Indeed, a decrease in staff employed in bank central offices has been observed, however this decrease is accompanied with employment increase as far as jobs involving executive duties are concerned. With the introduction of new technologies former duties have been dispensed and, at the same time, new jobs are created, requiring high-skilled and qualified people. Internet banking provides new jobs to computer engineers, a skill that was not traditionally needed in this sector. The increasing importance of strategic decisions made in today's economic environment of continuous M&A leads to the transfer of highly specialised tasks, such as legal and financial services, system design, publicity, consultation, asset management (e.g. Bricks and Mortar) (ILO, 2000).

The urgent need to cut down production costs, due to competition growth, leads banks to the transfer of less specialised tasks (sales appointments, complaints' management, collection of claims). This transfer serves as an excuse for banks to employ poorly remunerated seasonal staff with flexible employment terms and limited job rights. In the case of duties transferred to call centres, minimal money is invested on staff training because investment on the training of regular employees is preferred. In any event, it is true that even though the overall number of employees in the banking sector has not been reduced, lot of staff rotation has been observed across the various departments (Archontakis et. al., 1998).

METHODOLOGY

Descriptive research is adopted by this study. This study is designed to investigate the relationship between employment and index of banks merger and acquisition-number-number of banks branches in Nigeria. The sources of data for the study are secondary sources obtained from the banking supervision department of Central Bank of Nigeria. The data related to the number of employees and total number of branches of all commercial banks in Nigeria as at the end of December 2009. The data on employment and number of branches is longitudinal which were for period between 1999-2009. The study covered all the twenty-four commercial banks that emerged after Central Bank of Nigeria's directive on consolidation through mergers and acquisition. It should be stated that all data concerning the banking sector as a whole refer only to banking institutions and not to bank consortiums. In this way, an effort has been made to isolate and interpret M&A results only as far as the banks are concerned.

The methods of analysis used for the study were multiple line graph, multiple bar chart, simple percentages and linear regression. Multiple line graph and multiple bar charts were used to show the rate of change. Simple percentages were used to find the changes in employment and number of branches for the period of research. Regression was used to establish the relationship between employment which is dependent variable and number of bank branches which is independent variable. Statistical package for social sciences was used to run the regression analysis.

ANALYSIS AND DISCUSSION

Employment in Nigeria banks has been fluctuating for the last 20 years, a course that reflects not only dynamics of the banking sector within Nigerian economy but also the unsteady growth of its products and services. The data on the trend of employment in banking industry in Nigeria is shown in table 4.1 along with number of bank branches.

Insert Table 4.1 Here

Despite investment in technology – internet banking, ATMs etc. aimed at the development of new ways to distribute banking services, the traditional way of rendering banking services through branches remains attractive. The recent increase in the number of branches may be rendered to the growth of Nigerian banks. The total number of staff and total number of branches for the periods 1999-2009 are shown in the multiple line graph.

Insert Figure 4. 1 Here

In table 4.2 employment and branch rate of change can be seen for the last eleven (11) years. There was a reduction in the number of staff from 1999 to 2001. Again there was an appreciable increase in employment for periods 2002 and 2003 as shown in table 4.2 below.

Insert Table 4.2 Here

Year 2005 was the year in which more than 8641 jobs were lost in the banking industry, this is attributed to the fact that the year was the deadline given to banks to recapitalize or their operating licenses will be withdrawn. More than ten (10) banks were closed by the central bank of Nigeria because they could not meet up with the new minimum share capital of 25 billion naira. This corresponding reduction in the number of staff equally reflected in the reduction of branches. As from year 2006, there was a steady increase in employment up until 2009 when there was a decline in employment because more than 2000 jobs were lost as a result of an audit carried out by CBN which indicated a very high rate of non-performing loans and weak corporate governance. The rise in the number of branches after recapitalization is relatively confirmed. However the employment growth rate seems to be declining, exhibiting negative result for year 2009, this decline is rather typical of the particular restructuring period. The rate of change in employment and number of branches in Nigerian banking industry for the period 1999-20009 is shown in figure 4.2

Insert Figure 4.2 Here

The changes in employment and number of branches are at aggregate level, now the analysis will shift specifically to 2009 to show individual bank number of staff and number of branches. The total number of all staff in the banking industry in 2009 was 81, 432. This year marked the ripple effect of M&A in the history of banking in Nigeria. The total number of staff varies from bank to bank as a result of M&A as shown in Table 4.3

Insert Table 4.3 Here

As shown in table 4.3, Intercontinental Bank plc had the highest percentage of total number of staff – 11.18%. This is closely followed by First Bank of Nigeria Plc with 10.10%, Zenith Bank Plc had 9.08%, while Union Bank of Nigeria had 8.22% of total number of staff of banks in Nigeria. Access Bank Plc, Spring Bank Plc, Sterling Bank Plc and Wema Bank Plc had less than 2% of total number of staff in Nigerian banks. Nigeria International Bank Limited and Standard chartered Bank Nigeria Limited had less than 1% of total number of staff in Nigerian banks.

The other major variable that moves along with number of staff is number of branches in operation. This was also affected by M&A as shown in table 4.4

Insert Table 4.4 Here

As shown in table 4.4, UBA had the highest percentage of branches of Nigerian banks – 11.04%. This is closely followed by First Bank of Nigerian Plc with 10.28%, Union Bank of Nigeria Plc – 6.60%, Oceanic Bank International Plc – 6.64%, Zenith Bank Plc – 6.59%, Intercontinental Bank Plc – 6.50% of total domestic branches of Banks in Nigeria. Equatorial Trust Bank and Sterling Bank Plc had less than 2% of total branches of Nigerian banks. Nigeria International Bank Limited and Standard Chartered Bank Nigeria Limited had less than 1% of total number of branches of banks in Nigeria.

The objectives of the research is to identify the extent of impact on employment of recapitalized banks after the banking consolidation exercise, this was achieved through regression analysis, using number of branches as a variable representing merger and acquisition as an independent variable while number of staff represents employment which is the dependent variable. From the result of regression analysis carried out it was shown that number of branches had significant impact on employment in Nigerian banks as shown in table 4.5

Insert Table 4.5 Here

The results in table 4.5 show that employment in Nigerian banks is predicted by number of branches. From the regression analysis in table 4.6, F value when number of staff was regressed with number of branches was 21.383, F = (1/9 = 21.383, p=0.05). The regression is a significant explanation of the variation in the number of staff in Nigerian banks since 21.383 is higher than critical value of F=5.12 at 0.05 alpha level. The coefficient of determination was 70.40% as shown in table 4.6 below. Other variables other than number branches are responsible for the remaining 29.60 %in employment.

Insert Table 4.6 Here

Insert Table 4.7 Here

The coefficients of the model are shown in table 4.7

From table 4.7, the regression equation is: Number of staff = 37, 984.638 + 6.463(Number of branches). The regression equation is significant because number of branches predicts number of staff.

In an earlier study conducted by Mylonakis (2006), on the impact of banks' merger and acquisition on their staff employment and effectiveness, it was observed that after merger and acquisition in Greek banks, there was an appreciable increase in the number of bank branches with an increase in the number of staff. In this study, it is observed that as the number of bank branches increase, there is no appreciable increase in the number of staff emphasizing the restructuring currently going on in the banking industry. In another study conducted by Gunu (2009), it was equally observed through a multiple regression analysis that shareholders fund, total assets and number of domestic branches predict number of staff in Nigerian banks, but shareholders fund and total assets were not significant, it was only number of branches that was significant in predicting employment in Nigerian banks after the banking consolidation exercise in which there were mergers and acquisition.

SUMMARY AND CONCLUSION

It is mainly accepted that, through M&A, banks manage to better utilize their total human and operational resources, aimed at maintaining and expanding their market share, efficiently promoting new products, achieving better customer service, improving their staff operations and achieving capital reformation. Banks can also easier utilize new information technology which favours and make restructuring, integration and networking necessary within an international environment. By growing their size, banks can benefit from utilizing synergies that are necessary to develop within modern institutions (Mylonakis, 2006).

Merger and acquisition results in Nigerian Banking Market have been positive in terms of employment, since 30, 846 jobs were created during 2005-2009 period. These jobs belonged to banks after M&A. Changes in the nature and the structure of employment internationally observed also apply slightly but steadily in Nigerian banking market. The transfer of duties to external parties is already a fact and is further motivated by the practice of making production cost more elastic. As a result, low skilled duties such as cash and teller are characterized by short term employment contracts, low wages, almost no trade union activity exemplified by the case of Union Bank of Nigeria Plc and, naturally, regular staff turnover.

The study revealed that there was reduction in employment in the banking industry between 1999 and 2001 before the banking consolidation exercise. There was appreciable increase in employment from 2006 to 2008. Five banks – Intercontinental Bank plc, First Bank of Nigeria Plc, Zenith Bank Plc, Union Bank of Nigeria, and Oceanic Bank International Plc account for 46.56% of total employment in the banking industry. Equally six banks – UBA, First Bank of Nigeria Plc, Union Bank of Nigeria, Oceanic Bank International Plc, Zenith Bank Plc, and Intercontinental Bank plc account for 47.65% of total number of branches in the banking industry with UBA leading the park.

In conclusion Banks should endeavour to increase the number of their domestic branches to increase employment in the Nigerian economy as it is only the number of domestic branches of banks that was a significant variable in explaining the variation in employment in Nigerian banks.

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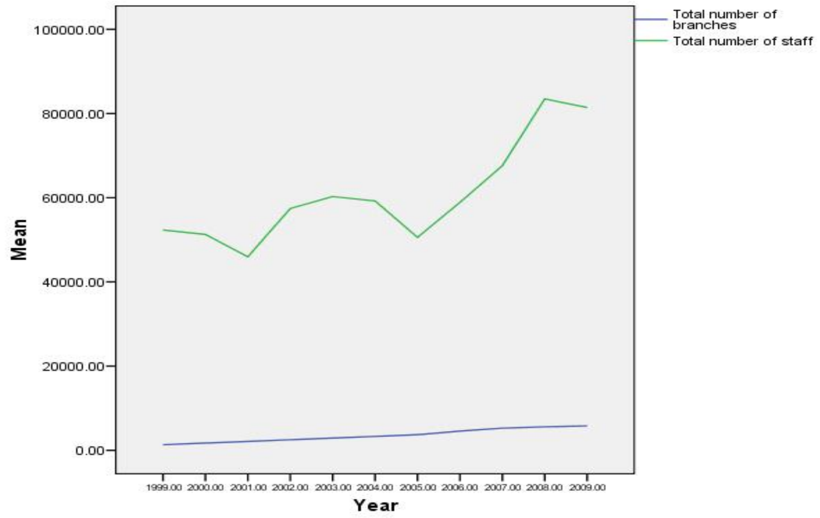
Table 4.1 Total number of staff in Nigerian Banks from 1999 to 2009

Year	Number of staff	Number of Branches
1999	52,330	2612
2000	51,275	2497
2001	45,962	1918
2002	57,451	3170
2003	60,227	3473
2004	59,227	3364
2005	50,586	2422
2006	58,903	4579
2007	67,597	5255
2008	83,489	5578
2009	81432	5799

Source: CBN 2010

Figure 4. 1. Total number of staff and branches in Nigerian banking sector: 1999-2009.



Source: Author's Computation 2011

Table 4.2: Employment and Branch rate of Change of Banks in Nigeria between 1999 -2009

Year	Number of staff	Percentage Change	Number of Branches	Percentage Change
1999	52,330	-	2612	-
2000	51,275	-2.02%	2497	-4.52
2001	45,962	-10.36%	1918	-23.19
2002	57,451	25.00%	3170	65.28
2003	60,227	4.83%	3473	11.14
2004	59,227	-1.66%	3364	-3.14
2005	50,586	-14.59	2422	-28.00
2006	58,903	16.44	4579	89.06
2007	67,597	14.76	5255	14.76
2008	83,489	23.53	5578	6.15
2009	81432	-2.46	5799	3.96

Source: CBN 2010

Figure 4.2 Annual Changes in the Number of Branches and Staff for all Nigerian Banks: 1999 -2009

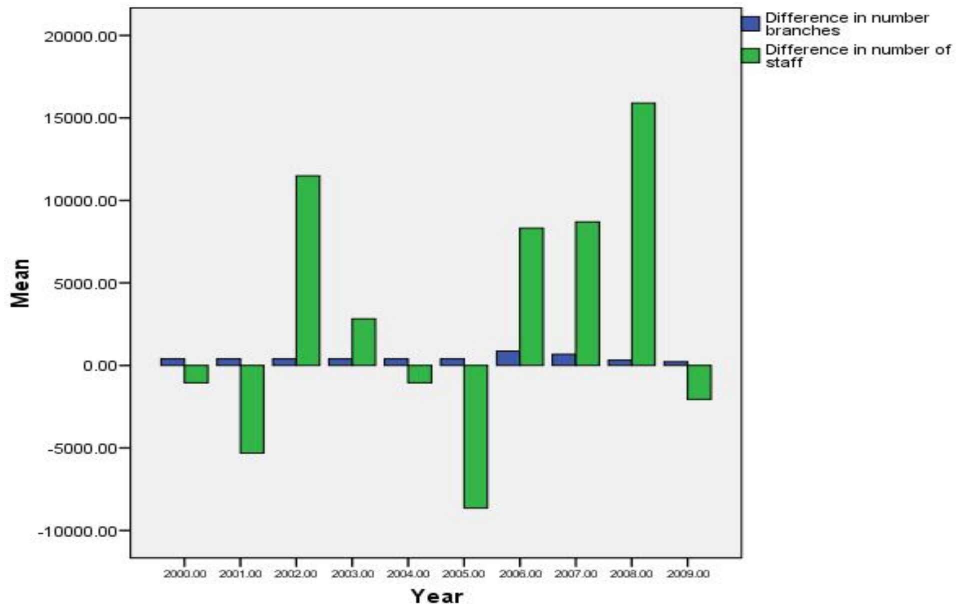


Table 4.3 Total Number of Staff in Nigerian Banks as at December 2009

Institution's Name	Number of staff	Percentage of Total Number of Staff
Access Bank Plc.	1402	1.72 %
Afribank Nigeria Plc.	2988	3.67 %
Diamond Bank Plc.	2612	3.21 %
Ecobank Nigeria Plc.	2941	3.61 %
Equitorial Trust Bank	1966	2.41 %
Fidelity Bank Plc.	3433	4.22 %
Finbank Plc.	2444	3.00 %
First Bank of Nigeria Plc.	8221	10.10 %
First City Monument Bank Plc.	2133	2.62 %
Guaranty Trust Bank Plc.	2565	3.15 %
Intercontinental Bank Plc.	9106	11.18 %
Nigeria International Bank Limited	245	0.30 %
Oceanic Bank International Plc.	6501	7.98 %
Platinumhabib Bank Plc.	3195	3.92 %
Skye Bank Plc.	2548	3.13 %
Spring Bank Plc.	1592	1.96 %
Stanbic IBTC Bank Plc.	1825	2.24 %
Standard Chartered Bank Nigeria Limited	570	0.70 %
Sterling Bank Plc.	1545	1.90 %
Union Bank of Nigeria	6697	8.22 %
United Bank for Africa Plc.	5432	6.67 %
Unity Bank Plc.	2823	3.47 %
Wema Bank Plc.	1251	1.54 %
Zenith Bank Plc.	7397	9.08 %
Total	**81, 432**	**100.00 %**

Source: CBN 2010

Table 4.4 **Total number of branches of Nigerian banks as at December 2009**

Institution's Name	**Number of Branches**	**Percentage of Total Number of Branches**
Access Bank Plc.	133	2.29
Afribank Nigeria Plc.	250	4.31
Diamond Bank Plc.	250	4.31
Ecobank Nigeria Plc.	242	4.17
Equitorial Trust Bank	102	1.76
Fidelity Bank Plc.	166	2.86
Finbank Plc.	182	3.14
First Bank of Nigeria Plc.	596	10.28
First City Monument Bank Plc.	145	2.50
Guaranty Trust Bank Plc.	179	3.09
Intercontinental Bank Plc.	377	6.50
Nigeria International Bank Limited	13	0.22
Oceanic Bank International Plc.	385	6.64
Platinumhabib Bank Plc.	270	4.66
Skye Bank Plc.	248	4.28
Spring Bank Plc.	191	3.29

Stanbic IBTC Bank Plc.	141	2.43
Standard Chartered Bank Nigeria Limited	26	0.45
Sterling Bank Plc.	99	1.71
Union Bank of Nigeria	383	6.60
United Bank for Africa Plc.	640	11.04
Unity Bank Plc.	237	4.09
Wema Bank Plc.	162	2.79
Zenith Bank Plc.	382	6.59
Total	5, 799	100.00

Source: CBN 2010

Table 4.5 Regression Analysis between Number of Staff and M&A index - Number of Branches.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.839[a]	.704	.671	7005.70863

a. Predictors: (Constant), Total number of branches

Table 4.6

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.0E+009	1	1049463930	21.383	.001[a]
	Residual	4.4E+008	9	49079953.39		
	Total	1.5E+009	10			

a. Predictors: (Constant), Total number of branches

b. Dependent Variable: Total number of staff

Table 4.7 coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	37984.638	5362.204		7.084	.000
	Total number of branches	6.463	1.398	.839	4.624	.001

a. Dependent Variable: Total number of staff