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## THE POST CONSOLIDATION OF BANKS: HUMAN RESOURCES MANAGEMENT CHALLENGES AND PROSPECTS IN NIGERIA BANKING SECTOR

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### Abstract

*Around the world, more companies are turning to mergers and acquisition based on recapitalization of their sector to enter into new global markets; provide expanded services to customers; and improve operating efficiencies. Yet, most of the organizations that fused to meet-up with these competitive challenges fail to reach their intended objectives because merging organizations typically overlook the importance of the Human resource factor in such arrangements. This paper examines the importance of Human resource management as a strategic option in the Nigerian corporate environment during merger and acquisition programmes in order to promote effectiveness and efficiencies. The study adopted both quantitative and qualitative research design, using primary and secondary data to investigate the resultant effects of recapitalization on Human resource management in the Nigerian Banking Industry. Some vital information was collected from relevant literatures while questionnaires were distributed to elicit information about mergers and acquisition and its effects on Human resource practices of the affected banks. This was complemented by Interview in the affected banks, to determine how the consolidation exercise has expanded their service to customers and improve operating efficiencies. Two hypotheses were formulated and tested, using chi-square inferential statistical tool to analysis the collected data. The findings reveal that Human resource is an active agent of an organization which must be taken into consideration before embarking on reform exercises like mergers and acquisition to improve on the organizational performance. The study also posited that two-third of mergers ends in failure because of staff hostility and others because of insufficient preparation and inability to integrate personnel with the new system. Conclusively, it is important to realize how it can be difficult to drive people out of their comfort Zone because of the fear of the unknown(change) which the workers envisage in a new Organization. However, these changes must be communicated to the old staff in order to proffer a lasting solution to the resisters of change through adequate participation in such mergers and acquisitions.*

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**Keywords:** Acquisitions, Consolidation, Mergers, Recapitalization and Human Resource Management

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## **INTRODUCTION**

Modern banking in Nigeria originated from the colonial period. The development of banking in the country follows the pattern of political and economic changes that characterized the economy since the amalgamation of the Northern, Southern protectorates and the Lagos Colony in 1914 to the present time.

The financial system has since then witnessed series of reforms in terms of free banking era, pre-central banking era, banking legislation era, era of indigenization, post-okigbo era and era of guided deregulation.

Nigeria was a British Colony, consequently its banking system developed along the line of the British banking system.

The present structure of banking in Nigeria is as follows:

- The Central Bank of Nigeria; the apex institution
- Commercial Banks
- Merchant Banks
- Development Banks
- Specialists Banks
- Primary mortgage institutions.

The Oxford Mini-Dictionary explains that capital is “accumulated wealth” or “money with which a business is started”. In banking, capital has these two meanings. At the outset, capital in the form of issues and paid up shares in money with which the business of banking is started. Overtime, the capital funds of the bank reflect the accumulated (addition or depletion) of capital.

In goods producing business, the need for capital is obvious, as this is required to provide for the substantial fixed capital resources in form of buildings, plants, machines and even working capital resources in form of raw materials. The need for capital resources is not the same for business organization in the financial services industry. In the main, the wits of the operations are employed for financial intermediation between the savers and the borrowers in the economy. Thus, the first bankers, the Goldsmith did not require additional capital beyond what he had as a goldsmith for his early banking business.

However, today the ingenuity of the banker has been developed and employed. So much that we can talk of the banker being engage in financial engineering in order to meet the economic challenges. This is where the issue of Consolidation set-in, as a result of capital accumulation to meet up with the global economy challenges.

In spite of the numerous advantages that has been given to mergers and acquisition, its challenges are too numerous that has led to the poor morale due to lay-off of Workers and has increased job insecurity of retained staff. This is unconnected with the cultural dynamics brought by the mergers and acquisitions exercise that affected the emotional and behavioural responses of the employees involved.

However, the numerous demerit of the programme prompted a lot of challenges to Nigeria Financial sector and led to staff hostility to avoid the fusion and others because of insufficient preparation and inability to integrate their personnel with the new system. Therefore, this paper will critically examines the importance of Human Resource Management in every Consolidation exercises and investigate its resultant effect on

Organizational performance with special reference to Nigerian banking sector. Similarly, the study is also to achieve the following objectives. These includes: (i) To examine the importance of consolidation exercise and its challenges on HRM in the new global market (ii) To determine how consolidation can provides expanded services to customers and improve operating efficiencies of the banks.

In line with the above objectives, the study attempted to test the below hypotheses:

1. There is no significant relationship between consolidation exercise and Human Resource Management practices of the banks that adopted the programme.
2. There is no significant relationship between consolidation exercise and organizational performance of the banks that adopted the programme.

## LITERATURE REVIEW

Recapitalization through acquisition/merger means to increase capital adequacy in order to cater for the increased riskiness of banking business that the supervisory authorities, have expressed concerns over.

The Increase in capital invariably leads to expansion of business which brings about branch expansion and may lead to having to employ more hands and efficient technology.

However, the reasons for capital adequacy (Recapitalization) according to the regulatory authorities is significantly, as a result of inflation, the volume of banking business reflected in the total assets/liabilities has increased phenomenally in recent years. As the assets grow, so will the capital diminish in relation, if no additions were made to it.

It is of this note that mergers, acquisition become a major strategic option in the Nigerian corporate environment as a response to the economic reform programme of the federal government as enunciated in the National Economic Empowerment and Development strategy (NEEDS). The ongoing merger and acquisition in the Nigerian Banking Industry are good example of reactive change for the country to compete favorably with their counterpart in new global market.

Around the world, more companies are turning to merger and acquisition on the bases of recapitalizing their sectors in order to enter into new global markets, provide expanded services to customers and improve operating efficiencies. Yet, more than half of all mergers ultimately do not deliver significant value creation.

Shabi (2007) attributed the failure of merging organizations typically to overlooking the importance of the human resource factor in such exercise. However, to reduce the possibilities of failure in mergers and acquisition, human capital should be placed at the centre of the process or at least be given equal attention to that assigned to economic and financial considerations.

It is very paramount to include human at the centre of merger and acquisition exercise because people are the most important singular assets of the work organization, whose thinking is highly rational. Labours are valuable resource, whose skills and initiative should be effectively harnessed and fully utilized to achieve the objectives of such programme.

However, following the licensing of more banks and a variety of other financial institutions in the wake of the deregulation of the financial system, competition for the available pool of experienced and skilled manpower in the system became keener. The

competition occurred against the backdrop of the absence of a previously articulated programme to accelerate manpower development in the financial service industry that could accommodate the demand for the skilled and experienced manpower occasioned by the unexpected upsurge in the member banks.

Daily Independent (2006) corroborated this assertion by saying that for “Nigerian banks to survive the consolidation exercise, the banks need people with special skills and commitment who can solidify and maintain strong relationship with the banks major customers and improve on their services.” They believed that experienced and retraining of the merged personnel can only be a lasting solution, if the objectives of consolidation is to be achieved.

Anifowose (2005) was of the opinion that to solve this problem of inexperience and unskilled workers, the newly merged banks must recruit from the existing stock of manpower in the industry through “poaching” or getting new intakes outside the industry. He went further to say that most of the newly merged banks adopted the introduction of new information technology, automation and computerization; partly to ameliorate the effect of manpower shortages and partly as a competitive strategy for attracting customer patronage. However, while this strategy to a great extent achieved the desired goals, it also created additional demand for high technically skilled people.

Although, skilled and experienced manpower is necessary for a safe and sound financial services industry. This is because apart from being a Labour-intensive industry, the level of service provided for its customers largely depends on the quality of people in it, while this must not be done with levity because manpower is the critical resource with which any organization can ensure the effective utilization of its other resources and financial institutions are no exception.

No wonder Bartels et al (2005) said attention must be focus on the quality of people employed in the financial service industry on a scale of qualifications, experiences and occupational mix to address the problem of human resource misallocation, poor staffing ratios, high labour mobility and the undue influences on promotion exercise. Research has also shown that must of Human Resources Management problems bedeviled with the shortage of qualified personel, over-stretched or thinly-spread of managerial and executive capacity and an influx of inexperienced people, which invariably has a negative effect on the performance of Nigeria Banks.

Another backdrop of the prevailing manpower situation in the financial services industry and its implications for the future of the industry in Nigeria is a clear-cut policy guideline on manpower. This is a policy that establishes staffing mix for each operational level in each category of financial institutions and makes non-compliance as one of the conditions that may lead to the revocation of operating license by Central Bank of Nigeria.

Igbinosa (2005) in his work on consolidation said a successful and outstanding organizations are known to have formulated and implemented a combination of employee-oriented policies and practices leading to high performance. He maintained that the positive outcome of these practices confirms that Human Resources Management practices have serious impact on overall performance of the organization including the banks. Human resources is managed as bank’s core competence and value-adding asset entailing the following: attracting and retaining employees with professional and technical capabilities; investing in training; development and retraining; innovative person-specific rewarding and competitive compensation; ensuring positive

organizational contract and justice; and providing a conducive and enabling work environment where every form of inhibition to excellent performance is removed (CIBN Bulletin, 2010).

The days of profit-central organizations that have no regard for employee engagement, empowerment and involvement have gone. Competitive advantage belongs to companies that know how to attract, select, deploy and develop talents, and most successful implementation of every business plans depend on workers to a larger extent, in this newly recapitalized bank if their want to survived this turbulent economy. Thus, the current global trend of increasing incidence of merger/acquisition is being imbibed in Nigeria as witnessed in the banking industry and now in insurance industry.

Shabi (2007) gave abundant evidence that the industry has been worse-off for the prevailing poor manpower situation and the cost to its are in terms of poor management performance, high level of frauds and raising staff training budgets for some that have appreciated the need to train and retrain their staff.

The rising wake of frauds in the industry according to him is due partly to the inexperienced hands that have taken over sensitive position with the exit of the more experienced personnel, resulting in poor credit approval and bad quality credit. Besides, this category of staff has been known to be more prone or susceptible to manipulations by fraudsters, both within and outside their institutions.

#### **Factors That Drive Recapitalization**

Academics and other observers advance value maximization to attributed the reasons for recapitalization on the following basis; managerial ego, adherent of globalization, competition and market strength coupled with the need to ensure stronger financial base to finance productive and regenerative investments, as well as the need to be more competitive in project finance among other led to the consolidation and reform agenda in the financial sector in the country.

Operators in the sector (Banks) now appreciate the need for business on a continental and global basis for improved socio-economic development as concretize our leadership position in the ECOWAS sub-region in the short term.

Thus, the survival of financial institutions in Nigeria will depend more on the ability to integrate the right people, technology, capital adequacy and products in new ways to regain the sagging confidence of the

output. However, the regulatory authorities as a duty to spearhead this revolution to avoid the consolidated banks losing their best brain as a result of this exercise.

Competitive advantage belongs to companies that know how to attract, select, deploy and develop talents, and most successful implementation of every business plans depend on this strategies. Shabi (2007) in his findings concluded that two-third of merger ends in failure because of staff hostility and others because of insufficient preparation and inability to integrate personnel and the system. Even more failure are due to irreconcilable differences in corporate culture and management which the resultant effect will be shifted to Human Recourse Management.

By and large, a well articulated manpower policy for financial institution that taken into consideration the industry (Banks) its short and long term manpower requirements on

an industry wide basis, is likely to be possible panacea for its present and future manpower quality.

Thus, whatever perspective different stakeholders hold on the puritanical position of the CBN governor, what is most salient is that Nigeria Banking Sector and infact the entire Nigerian economy needs a radical reform and the recapitalization policy, may just be appropriate.

Paradoxically, the policy (recapitalization) requires each financial institution to maintain a stated staffing ratio and mix appropriate for its level or volume of operations to facilitate the attainment of greater professionalism and a high standard of banking practice capable of easing the present supervising burden on the regulatory authorities and creating a safe and sound financial environment.

### **Acquisition/Consolidation and Human Resources Management**

With recapitalization, the completion of the acquisition and integration process of two banks with operationally and culturally differences, required human resources to play a major role. Although, most of the integration plan has been implemented in the banking sector, but the human side of the integration continues to evolve.

Little wonder therefore that Human Resources (HR) managers have been encouraged to plays strategic role in their organization, especially with case of extensive organizational change processes such as merger and acquisitions as we are currently witnessing in the banking sectors.

Having review some of related Literatures, we discovered that few of the below itemized effects could erupt as a result of Acqusition, consolidation and Mergers in the Nigeria banking Industries. These Includes:

1. Recapitalization through acquisition/merger. This, in the short-run may lead to downsizing or rightsizing, however its effects on the human capital/resources depends on the merging banks. If the merging bank grows and is efficiently managed the synergy brought about or gained as a result could lead to expansion of business and thereby increase human capital.
2. Emphasis in employing human capital now will be stated on highly skilled professionals and training of fresh university graduates due to intense anticipated competition.
3. Reward system for human resources will be merit driven, as creativity and innovation will be benchmark for education and recognition.
4. The banks organization will be standardize and chain of commercial structure will be on the alert to avoid bureaucracy and redtaperism for efficient decision taking.
5. The board composition of the bank will have to be highly skilled, experienced and competent personnel with proving track records to give the new bank a sense of direction and focus.
6. Sanctions on erring staff will be more emphasize as the drive will tends towards operational discipline.
7. Operational abuse may lead to instant termination of staff, as the tolerance level will be zero.
8. Again, with the recapitaliation, the new banks may become global players and this will totally change the nature of business they are involved, in term of the volumes and

complexity and may therefore call for the creation of totally new jobs and functions hitherto non-existent.

9. Changing the management and leadership style in a bank will require several training programmes on the need and the importance of a new style. The style that is adopted is very important, as it will in no small measure affect staff morale and productivity.
10. Compensation or remuneration is another key issue of greater relevance's to the emergency of the merge bank on how do you compensate the staff of the new organization appropriately. What schemes are relevant? There are talks about "buy-in" by South Africa, Indian and British Banks. How will the compensation be structured in line with global standards or even international indices?

All this is so, because the challenge in making merger/acquisition work is the management of people. In a case of M/As, the role of HR managers is very demanding because they need to integrate HRs practices and moreover, perform two other roles simultaneously; a strategic role of Organization wide integration and a support role for business unit transaction.

## **METHODOLOGY**

### **Instrumentation, Source and Data Description**

This aspect focuses on the method adopted and procedures followed in the course of carrying out the study. This includes the research design, population, sample size and sampling techniques, administrations of research instrument as well as method of data analysis.

The research design adopted for this paper is survey research design which enable the researchers to investigate the variable of consolidation and also to measure the degree of relationship between the variables and Organization performance. This was accomplished by administration of questionnaires designed in a close-ended format to ensure direct collection of primary data from the targeted respondents who were highly dominated in the banking industries. 15 items questionnaire was distributed for this study which was complemented with private interview conducted to top management staff of these selected banks.

The population of the study comprise of staff of four (4) major banks that involved in consolidation exercise in the year 2000 which includes: SKYE BANK PLC, ECOBANK, GTBANK and ETB. All these banks reside in Lagos State Nigeria, Lagos was chosen because it is the commercial nerve centre of the country and also most of these banks have their head office's in the state.

A total number of 120 questionnaires were distributed to respondents of the selected banks at 30 questionnaire per bank using stratified sampling techniques. This was further subdivided into three prominent levels in the bank, that is, 10 questionnaires to top management staff, middle level staff/operating core and low level staff respectively. This was carefully done to make sure that the respondents were randomly sample to allow for equal chance of being selected.

The researchers personally administered the structured questionnaires themselves to the respondents, to avoid errors of double entries and also help the respondents in completing the questions where they find it ambiguity. Out of the 120 questionnaires

administered, only 89 questionnaires were found useful, others were wrongly computed while some were not returned.

However, the returned questionnaires were coded into numerical values and mapped into four point Likert scale measurement of; strongly Agree=4point, Agreed=3 point, strongly disagreed=2 point, Disagreed=1 point. (Azika, 1991; Dauda et al, 2010.).

Chi-square inferential statistical tool was employed on the coded responses to determine the relationship between Consolidation Exercise and Human Resource Management Practice on one hand and the relationship between Consolidation Exercise and Organization Performance on the other hand. The findings were supported with the coefficient of correlation (c) to strengthen the degree of relationship among the measured variables at +1 or -1. Thus, a positive value close to +1 indicates a strong positive relationship, in which a success in one variable implies a huge success in the value of the second variables, while a strong negative relationship close to -1 indicates that a successful implementation in one variables leads to the failure in other. The extent of correlation is considered at 0.01 level of significance.

### **DATA ANALYSIS, RESULTS AND INTERPRETATION**

The data collected by means of questionnaire administered were analyzed using the above mentioned statistical tool and complemented with Interview. While the formulated Hypotheses during this study were tested using the Chi-square inferential statistical tool at 5% level of significance with appropriate degree of freedom.

From Table 3.2, it was observed that the calculated value is greater than the critical value. Since the chi-square calculated value ,79.7 is greater than the critical table value of 7.81. We reject  $H_0$  at 0.05 level of significance and accept  $H_1$ ; that is, there is a significance relationship between consolidation exercise and the practice of Human Resource Management activities.

To examine the strength of association between Consolidation exercise and Human Resources Management Practices, the test of coefficient of contingency (c) was deployed.

This further led credence that there is a high degree of association between the two variables. The test therefore is strong enough to corroborate the earlier tested hypothesis, which revealed a significant relationship between consolidation and HRM practices. This was unconnected with the fact that mergers and acquisitions posses series of challenges to Human resources management Activities of every organizations that adopt the scheme. Examples of such challenges include hostility on the part of the employees who have already familiar with their former organization cultures.

Staffing process is another area in Human Resource Management where Consolidation is going to be a challenge, in attracting, retaining and motivating highly skilled and experience workforce. Outsourcing and Poaching of qualified hand will be the order of the day and Human resource practitioners needs to be very careful to avoid the problem of culturally incompatible among the new intakes with their organization.

However, human resources managers have been encourage to play a more strategic role in their organizations especially in the case of extensive organizational change process as mergers and acquisitions because most of the exercise failed due to non-inclusive of people at the pre-merger stage and effect management of people is the hearth of a successful mergers and acquisitions exercises.



In testing the second Hypothesis, a question was adopted from the questionnaire and analyzes as followed.

From Table 3.4, it was observed that the chi-square calculated value (37.5) is greater than the critical table value of (7.81) .We reject H0 at 0.05 level of significance and accept H1; meaning there is a significant relationship between Consolidation Exercise and Organizational Performance..

To examine further the strengthen of association between the variables of Consolidation exercise and organizational performance, the test of Coefficient of Contingency (c) was also deployed.

This test also confirmed that there is a strong degree of association between consolidation exercise and organizational performance as earlier affirm by the tested hypothesis. This was unconnected with the fact that Mergers and acquisition increased the size and numbers of banks while this enhances banks greater performance after the consolidation. It was revealed that banks that adopted consolidation will immensely contribute to growth of the banks by increase its efficiency in term of service delivery and operating effectiveness.

However, it was the opinion of the researchers that for consolidation exercise to achieved the goal of organizational performance, Human resources manager during mergers and acquisition should delay its strategic role in a way of helping to define desired workforce outcomes that can tracked throughout the implementation phase, to ensure that the deal delivers the expected results for both the business and people.

## **CONCLUSION AND RECOMMENDATIONS**

Any mergers and acquisition is a prime opportunity for Human Resources Managers to demonstrate its knowledge and skill in the management of human capital. Human Resource is an intrinsic part of the integrated team in any Mergers & Acquisitions' because of its ability to evaluate the capability of corporate cultures and different options for combining enterprises.

Gadieshi et al (2003), opted that It is important to realize how hard it can be to drive people out of the comfort zone. Change management will take into consideration the history of the various banks as well as the subsisting polities or organizational dynamic in order to succeed.

With these observations, it is therefore pertinent to develop a strategy that could be followed for a successful mergers and acquisitions. These are as follows; establishing a sense of urgency, creating a vision, communicating the vision, empowering others to act on the vision, planning for and creating short term wins, consolidation improvements and producing still more change and institutionalizing new approaches.

Bearing in mind that employees will be both negatively and positively affected by this reorganization, discussions aimed at winning the support of staff must be able to answer certain questions from employees such as why this change? What is in it for me? What sorts of compensation will I derive if I am retrenched?

All these questions must be borne in mind when discussing the change process with staff.

Once the staff is fully involved in the process, it will be less difficult to implement changes. Therefore in a nutshell, the steps to take in communicating proposed changes to staff are;

- Pass the message of the proposed changes to the staff.
- Hold series of meeting, which are in a participatory form and obtain the opinion and ideas of staff.
- Identify the resisters of change and driver of change.
- Formulate methods of combating resistance, winning opposition through explanation of the pro and cons of the proposed change.
- Devise team groups to ensure participation of the staff in change implementation.

If all these factors are taken into consideration and processes implemented, then sound foundation would have been laid for the mega banks and human capital management.

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