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THE EFFECTIVENESS OF RETRENCHMENT IN THE BANKING SECTOR IN ZIMBABWE BETWEEN 2009-2011

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Abstract

The purpose of this paper was to understand the effectiveness of the retrenchment strategy by the Zimbabwean banks between 2009-2011 after the dollarization of the economy on January 29 2009. The paper also set to explore whether the retrenchment strategy was the best strategy and the methods of retrenchment used. The research adopted a survey research design soliciting data from 8 commercial banks that retrenched their employees during this period. Data collection was through questionnaires and interviews from *head of departments, chief executive officers (CEOs) and board members in the financial services sector. Judgmental sampling was used and a total of 102 questionnaires were sent out and were 10 interviews were scheduled of which 5 were with the RBZ managers. Data from the Reserve bank of Zimbabwe was presented separately because the retrenchment was as a result of a legislation passed by the Parliament of Zimbabwe on 31 March 2010. This entailed that the reasons for the RBZ to retrench were different from those of other commercial banks, although the institution was facing similar viability problems.The findings indicate that the majority of banks experienced an improved performance through savings in labour costs, and other labour related costs due to a reduction on head count in the short run. This was because of the mismatch between the income generation and business costs that resulted after the contraction in business activity at the onset of the multicurrency regime. However, the results also indicate that the seemingly positive effect did not persist*

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as most of the banks reported a decline in profitability in the long run. The study recommends that organizations should not retrench for the sake of reducing head count, but the exercise should be accompanied by changes in strategy, organization structure and culture for it to be effective.

Key Words: Zimbabwe, Retrenchment, Downsizing, Strategy, Banks, Hyperinflation, Multi-currency

Introduction

This research was carried out in the backdrop of the transition from the Zimbabwean dollar to multicurrency system which was characterised by previously hyperinflationary periods and unstable exchange rates. Muza (2010) noted that the Reserve bank of Zimbabwe would under normal conditions require a staff complement of about 500, but had a 2000 strong workforce at the height of its quasi-fiscal activities. Almost 75% of banks had retrenched by mid-2010. According to Zimbabwe Banks and Allied Workers Union President (2010), the retrenchments were unjustifiable if considered against any economic factor. According to Zimbabwe Banks and Allied Workers Union (2010), by June 2010, one year into dollarization as many as 1 000 jobs had been lost and by the end of January 2011, 1 455 employees left the central bank in one fell swoop, and the retrenchment tally rose to well over 2000. Banks which retrenched include CFX, Kindgom Financial Holdings Limited (183), ZB Bank (122), POSB (165), Metropolitan Bank (100), Standard Chartered Bank (98), Barclays Bank (206), NMB Bank (110), MBCA Bank Limited (38), Agribank (160) Premier Banking Corporation (now Ecobank) (42), CABS (90) and First Banking Corporation(a 30% reduction in head count), (News Day, 7 September 2011). Despite the massive job losses experienced, the stark reality was that the threat of further job losses had not subsided as some banks were contemplating further downsizing postures even as early as January 2012.This was as a result of the Reserve bank governor Dr. G Gono threat to shut down all banks that failed to comply with the capital reserve ratio requirements in the first two weeks of February 2012. The main objective of retrenchment was to reduce the size of the employees and thereby cut down on the labour costs. This was anticipated to improve salaries, quality of work life and performance of workers. In part, improvement of the banks' liquidity and service delivery was a long-term objective of retrenchment. According to Michaelson and White (1996) a retrenchment exercise has the potential to improve or disrupt the effectiveness of company, to disrupt the lives of its workers and to lead to litigation." It is therefore against this background that the researchers sought to establish the effectiveness of the retrenchment strategy. The research also sought to establish whether the banks had attempted to implement other strategies before embarking on retrenchment.

Reasons for Retrenchment in Zimbabwe

In the 1990s, Corporate America witnessed major changes in its business and general environment. These included a slower economy, efficient competitors, excess capacity, concerns regarding excess diversification (especially through acquisitions) and hierarchical organizational structures, and deregulation Cascio (1993). To cope with these changes and to restore profitability, many major corporations resorted to downsizing. Cameron, Freeman and Mishra (1991) report that during the late 1990s more than 85% of the Fortune 1000 firms downsized affecting more than 5 million jobs in America. In Zimbabwe many workers lost their jobs due to the Economic structural adjustment program. By reducing employee counts firms hoped to improve profitability. While some researchers found that downsizing could result in positive benefits for the firm (Bowman and Singh 1993, Demuse, Vanderheiden and Bergmann 1994, Hamel and Prahalad 1994), other researchers found that in many firms the expected economic benefits are not reached (Cascio1993, Bethel and Liebeskind 1993).

Keidel(1994) observed that in many firms, downsizing is particularly problematic because its negative consequences can result in organizational trauma. Bowman and Singh (1993) argue that downsizing will continue to be a major part of long-term strategic planning in firms and that it can result in positive benefits only if it is managed properly. However, the empirical studies in this area have been far from conclusive. There is one major reason for the lack of consensus on the relationship between downsizing and performance. This is due to the fact that in prior empirical research, this relationship was assumed to be linear. There is evidence now to believe that many contingency variables may be affecting this relationship and therefore, an investigation of these factors will shed more light on this process (Bowman and Singh 1993). As organizations in the United States and the world over continue to downsize into the 1990 and 2000 many questions regarding the implementation and consequences of downsizing remain unanswered (Cameron, Freeman and Mishra1991). Therefore, this area offers a lot of opportunities to researchers in strategic management, finance, and organizational behavior.

One important factor affecting the relationship between downsizing and performance is the impact of top management team change (Hamel and Prahalad 1994). However, there has been no empirical research in this area

Definition of downsizing

It is important to define downsizing in order to study its impact on organizational performance. Freeman and Cameron (1993) and DeWitt (1993) stress the need for definitional clarity in downsizing research. They argue that downsizing should not be confused with organizational decline, non adaptation or growth in reverse. There is also confusion in the literature on the terms down scoping and downsizing. Down scoping involves reducing the portfolio of businesses, usually through divestitures, while downsizing refers to employee reduction (Hoskisson and Hitt 1994). Down scoping may or may not involve downsizing i.e., employee reduction. Similarly, downsizing may or may not involve down scoping. Here, we are interested in the downsizing construct as a strategy that is purposefully undertaken to improve organizations' efficiency and/or effectiveness. Cascio (1993) has defined downsizing as "the planned elimination of positions or jobs" (p. 95). Similarly, Appelbaum, Simpson and Shapiro (1987) define downsizing as a systematic reduction of a workforce. In this study, downsizing has been defined as employee reduction consistent with the above definitions.

Costs and benefits of retrenchment

Baguma, Matagi (2002) noted that retrenchment has attracted different interpretations and effects (Standing and Tolkman1991). It has costs and benefits depending on how it is managed. Their conceptual model shows that the need for retrenchment, its planning, implementation and impact are related. It also shows that the need for retrenchment (for example, of an oversized civil service) leads to planning and then implementation of the exercise. Implementation may result in positive or negative consequences and this has implications for employees who are retrenched and those who stay on their jobs. Retrenchment has implications for both organizations, and the country. Feedback about retrenchment effects is necessary whether the effects are positive or negative. Particularly, corrective feedback on consequences is necessary to improve subsequent steps and future retrenchment exercises.

Positive impact implies that the retrenchment exercise is likely to achieve its main objective which is improved quality of service delivery. Baron and Greenberg (1990) argue that for retrenchment to be effective, it needs to follow the sequential steps of identifying the need for change, planning for the change, implementation, evaluation and feedback.

In a 1990 survey conducted by the American Management Association on downsizing, it was found that more than 50% of the firms which downsized to become lean and mean, became lean and lame because they were not prepared for the event (Greenberg 1991). Cameron, Freeman and Mishra (1991) found that downsizing had a negative impact on productivity when it was limited to reductions in headcount rather than used as a strategy to root out redundancies, waste and inefficiencies. On the other hand, some researchers have argued that downsizing can result in positive benefits. Bowman and Singh (1993 b) found that when downsizing is preceded by significant organizational change, it can have a positive impact on subsequent performance. A study by Wyatt Consulting Company in 1993 (reported by Cascio 1993) shows that 77% of the managers Wyatt surveyed believed that downsizing had a positive impact on productivity. Norman (1995), in an empirical study, found that firms making white-collar reductions had a significant increase in performance two years after the reduction.

We argue that the reason some firms have enjoyed success with downsizing is that they have used it purposefully and have resorted to the right amount of downsizing instead of arbitrarily reducing headcounts. Many Fortune 500 firms in the 1980s had structures that were too hierarchical. The structures also involved considerable duplication of activities. Many had several layers of management which resulted in poor response to the external environment (Cascio 1993). Therefore, some downsizing was necessary to make the organization more competitive. However, in a rush to improve short term profits, many firms made more employee reductions than necessary and in the process lost valuable human expertise. A little downsizing is probably good for large firms but too much may have an adverse impact on performance. Therefore, we argue that the relationship between downsizing and performance may be curvilinear; specifically, performance will be higher at moderate rather than low or high levels of downsizing.

A high level of downsizing is associated with greater turbulence in the organization which may have an adverse impact on organizational performance (Kesner and Dalton 1994). When an organization resorts to large scale employee reduction as was the case in the Zimbabwean banking sector, many skilled employees may even choose to leave the organization on their own rather than stay and face the uncertainty. This could have a serious impact on the operations of the organization. For the employees who remain, there could be problems associated with job insecurity. On seeing their colleagues leave, their morale may be poor and as a result, their productivity is bound to decrease. With high levels of downsizing, many survivors may feel worried about future layoffs. Brockner, Grover, Reed and DeWitt (1992) found an inverted U-relationship between job insecurity associated with a layoff and the work effort of the survivors. Both low and high levels of job insecurity were associated with poor work effort. If job insecurity is high, survivors may believe that there is little they could do for the organization and as a result, they may not be motivated. This may affect firm performance.

Downsizing strategies

Jeffrey Kurebwa (2011) identified three approaches as outlined by Cameron et al (1994). First, employee reduction strategies which are intended to reduce headcount usually through redundancy. Second, work redesigns strategies which include redesigning roles, hours and organizational structures. Work redesign includes eliminating functions, hierarchical levels, divisions, or products, consolidating and merging units, and reducing the working hours, while systematic changes entail changing the organization's internal and external systems such as values, communication, production chains in terms of suppliers and customers (Bleuel, 2001). Third, systemic change strategies which involves redefining downsizing as "an ongoing process, as a basis for continuous improvement; rather than as a programme or target" (Cameron, et al, 1994: 199). Mishra and Mishra (1994) argue that the reliance on employee reduction as a strategy has a detrimental impact on organizational cost and quality, whilst the use of a work redesign and / or systemic change strategies has a positive impact on organizational cost and quality. This claim is limited by questions of causality, an assumption that the impact of downsizing can be measured and a narrow criterion of success focused on the organization's perspective. This claim also conflicts with alternative views in the literature that "Corporate goals of downsizing are rarely achieved, with share prices of downsized firms tending to decline over time" (Redman and Wilkinson, 2001: 317). Organizational downsizing is mostly done through top-down directives. With it usually come other strategies such as work redesign and systematic changes. Downsizing using the workforce reduction strategy has been regarded as the harshest way of improving efficiency, productivity and worker competencies because of its impact on both the leavers and survivors (Makawatsaku and Kleiner, 2003). The effectiveness of downsizing strategies is ultimately dependent on the reactions of both the survivors and leavers of the process. Thus, the survivors' behaviour is critical for the slimmed organization's effectiveness. This assertion seems to be consistent with the behavior exhibited by the survivors at RBZ who wanted to leave the bank because they felt their counterparts (leavers) had become better off because of the retrenchment. Behavioural changes not only result from changes in the formal system or the normative structures, but are also influenced by changes in the cognitive and perceptual orientations of the individuals (Chin and Benne, 1994; Allen, et al, 2001). This highlights the importance of the survivors' interpretation and perceptions of the downsizing process as well as the evaluation of their current position and status in the organization.

Methodology

The research adopted a survey research design soliciting data from 8 commercial banks that retrenched their employees during the 2009-2011 periods. Data collection was through questionnaires and interviews from head of departments, chief executive officers (CEOs) and board members in the financial services sector. A total of 102 questionnaires were sent out and were 10 interviews were scheduled of which 5 were with the RBZ managers Judgmental sampling was used in selecting the commercial banks since many institutions might have also retrenched employees.

Findings

Reason for retrenchment by Reserve Bank of Zimbabwe

In January 2011, the RBZ was downsized and this saw 1455 employees being retrenched following a Legislation passed by the Parliament of Zimbabwe on 31 March, 2010 which curtailed and abolished Treasury's directives to the Central Bank to engage in quasi-fiscal activities. This led to the refocusing of the bank on core activities centered on Bank Licensing, Supervision and Surveillance; Financial Markets and Sector Stability; Exchange Control; Economic Research and Policy Enhancement; Anti-Money Laundering and Prevention of Terrorist Financing; Bank to Government and Lender of last Resort Activities; Policy and Price Stability Advice to Government. The five managers further said that subsequent to the passing of that Legislation, a new Board of Directors was appointed in April, 2010 and one of its first tasks was to re-align the Bank's activities to its legal mandate and core business, leading therefore to the drawing up of new internal organizational structures which were designed to meet the challenges of the Bank's new mandate and operating environment. A total of 1 455 people were affected. These were comprised of 964 non-managerial staff; 232 contract workers and 259 managerial employees. Asked whether the strategy was effective, the five senior managers said the strategy was effective in the short term since it had the effect of reducing the wage bill and other labour related costs; however they indicated that the strategy had a negative effect in the long run and this was shown by an increased number of survivors who expressed a desire to leave the organization.

The following section is a presentation of the data collected from the banks besides the RBZ, and table 1 below lists the alternative strategies implanted before retrenchment by other banks in the Zimbabwean financial services sector.

Table 1: Alternative strategies before retrenchment by the banks

Response	Frequency	Percentage (%)
Shorter working week/shift	90	88
Cut salary by 50%	50	49
Freeze on head count	102	100

According to Table 2 the majority of respondents indicated that they tried alternative strategies before they resorted to retrenchment. 100% of the respondents said they froze on head count, 50% said they cut salaries by 50% and 88% said they adopted a shorter working week (shift) to cope with excess capacity and high business and labour costs. The result is supported by Kurebwa (2011) who identified three approaches as outlined by Cameron et al (1994). First, employee reduction strategies which are intended to reduce headcount usually through redundancy. Second, work redesigns strategies which include redesigning roles, hours and organizational structures However, Mishra and Mishra (1994) argue that the reliance on employee reduction as a strategy has a detrimental impact on organizational cost and quality, whilst the use of a work redesign and / or systemic change strategies has a positive impact on organizational cost and quality. This claim is limited by questions of causality, an assumption that the impact of downsizing can be measured and a narrow criterion of success focused on the organization's perspective. This claim also conflicts with alternative views in the literature that 'Corporate goals of downsizing are rarely achieved, with share prices of downsized firms tending to decline over time' (Redman and Wilkinson, 2001: 317).

Table 2 below shows that all of the respondents said retrenchment had resulted in savings on labour costs, reduced costs of utilities, telephone bills, motor vehicle and communication costs.

Table 2: Effect of the retrenchment strategy on the banks' performance in the short- run

Response	Frequency	Percentage (%)
Savings on labour costs.	102	100
Cost savings on utilities, telephone, motor vehicle, and communication	102	100
Costs which cannot easily be quantified but are realized whenever there is staff reduction	102	100

The respondents also said there were savings on other unquantifiable cost reduction. The result of the research where the majority of the respondents claimed that retrenchment had resulted in improved organizational performance through significant costs reduction seems to contradict with earlier findings by other researchers a majority of who have argued that downsizing fails to result in the expected economic benefits and that it can be disruptive. Cascio (1993) reports that not only do most downsizing efforts fail to generate the anticipated results, but that the stock prices of companies that downsize begin to deteriorate after the event. He found that the stock prices in the firms that had retrenched increased on the day the announcement is made but begin to slide soon after. Likewise, Worrell, Davidson and Sharma (1991) found that investors reacted negatively to downsizing announcements. In a 1990 survey conducted by the American Management Association on downsizing, it was found that more than 50% of the firms which downsized to become lean and mean, became lean and lame because they were not prepared for the event (Greenberg 1991). Cameron, Freeman and Mishra (1991) found that downsizing had a negative impact on productivity when it was limited to reductions in headcount rather than used as a strategy to root out redundancies, waste and inefficiencies. However, in the Zimbabwean situation the retrenchment in the banking sector seemed to suggest a positive impact due to high discrepancies than existed between income generation and business costs.

Table 3: Effect of retrenchment strategy on the banks' performance in the long-run

Responses	**Frequency**	**Percentage (%)**
Positive	22	22
Negative	80	78
Total	**102**	**100**

According to Table 3 above, 22% of the respondents indicated that retrenchment had a positive effect on organizational performance and 78% said that retrenchment had negatively affected organizational performance, despite an initial decline in costs in the short run. Despite this result retrenchment has remained management's first choice when organizations are distressed. This is supported by Bowman and Singh (1993), who argue that downsizing will continue to be a major part of long-term strategic planning in firms, and that it can result in positive benefits only if it is managed properly. However, the empirical studies in this area have been far from conclusive.

Table 4: Hiring/Rehiring of employees after retrenchment by banks in Zimbabwe after January 2009

Response	**Frequency**	**Percentage (%)**
New employees hired to replace skills other than those retrenched	92	90
Retrenched employees hired on short term contracts	10	10
Total	**102**	**100**

Table 4 above shows that 90% of the respondents had hired new employees to replace skills lost through other means other than retrenchment such as natural wastage due to resignations and deaths and some were recruited to many new businesses. Only 10 % of the respondents indicated that they had rehired employees that had been retrenched.

Employees that were rehired were on short-term contracts to fill the gap left by employees who had gone on leave. (Cascio 1993), argue that many organizations that retrench had structures which involved considerable duplication of activities. Many had several layers of management which resulted in poor response to the external environment. Therefore, some downsizing was necessary to make the organization more competitive. However, in a rush to improve short term profits, many firms made more employee reductions than necessary and in the process lost valuable human expertise. A little downsizing is probably good for large firms but too much may have an adverse impact on performance. Cascio's argument may explain why organizations hire new employees after retrenchment. This notion is also supported by Mishra and Mishra (1994) when they argue that the reliance on employee reduction as a strategy has a detrimental impact on organizational cost and quality, whilst the use of a work redesign and / or systemic change strategies has a positive impact on organizational cost and quality.

Table 5: Methods used by banks in Zimbabwe to retrenchment after January 2009

Response	Frequency	Percentage (%)
Voluntary	102	100
Forced	0	0
Total	**102**	**100**

Table 5 above show that all the respondents (100%) indicated that the retrenchments in the banking sector during the period under review were voluntary and none were forced to go. The results show that management understood the need to handle the process of retrenchment fairly and amicably to reduce negativity both on the party of leavers and survivors. (Makawatsaku and Kleiner, 2003), seem to agree with the results of the research when they said organizational downsizing is mostly done through top-down directives and with it usually come other strategies such as work redesign and systematic changes. Downsizing using the workforce reduction strategy has been regarded as the harshest way of improving efficiency, productivity and worker competencies because of its impact on both the leavers and survivors. Therefore effectiveness of downsizing strategies is ultimately dependent on the reactions of both the survivors and leavers of the process. Thus, the survivors' behaviour is critical for the slimmed organization's effectiveness. (Chin and Benne, 1994; Allen, et al, 2001), also argue that behavioural changes not only result from changes in the formal system or the normative structures, but are also influenced by changes in the cognitive and perceptual orientations of the individuals. This highlights the importance of the survivors' interpretation and perceptions of the downsizing process as well as the evaluation of their current position and status in the organization.

Table 6: Effect of retrenchment on organizational performance

Response	Frequency	Percentage (%)
Profitability	52	51
Worker morale	90	88
Efficiency	102	100

Results shown in Table 6 above, of the 102 respondents that were asked about the effect of retrenchment on organizational performance, 51% said profitability had improved in the short – run, 88% said worker morale had improved and 100% said organizational efficiency had significantly improved. However, there is no consensus among scholars regarding the impact of retrenchment on organizational performance. Although the results suggest an improvement in organizational performance after retrenchment, there is no consensus on the effect of retrenchment on organizational performance. This controversy is shown through a 1990 survey conducted by the American Management Association on downsizing, which found that more than 50% of the firms which downsized to become lean and mean became lean and lame because they were not prepared for the event (Greenberg 1991). Cameron, Freeman and Mishra (1991) also found that downsizing had a negative impact on productivity when it was limited to reductions in headcount rather than used as a strategy to root out redundancies, waste and inefficiencies.

On the other hand, some researchers have argued that downsizing can result in positive benefits. Bowman and Singh (1993 b) found that when downsizing is preceded by significant organizational change, it can have a positive impact on subsequent performance. A study by Wyatt Consulting Company in 1993 (reported by Cascio 1993) shows that 77% of the managers Wyatt surveyed believed that downsizing had a positive impact on productivity. Norman (1995), in an empirical study, found that firms making white-collar reductions had a significant increase in performance two years after the reduction. The former assertion seems to true be for the Zimbabwean banking sector, since the retrenchments almost three years ago the sector is still tethering on the verge of collapse.

Table 8: Relationship between retrenchment and organizational performance

Response	Frequency	Percentage (%)
Negative	0	0
Positive	102	100
Total	**102**	**100**

The majority (100%) of the respondents as shown in Table 8 indicated that there was a positive relationship between retrenchment and organizational performance as the banks experienced a significant growth after retrenchment. Although the majority of the respondents described the after effect of retrenchment as positive, this cans not growth in the real sense but just a reduction of business costs and labour costs due to a reduction in headcounts. Despite the lack of consensus by researchers of the effect of retrenchment on organizational performance, Keidel (1994) observes that in many firms, downsizing is particularly problematic because its negative consequences can result in organizational trauma. Bowman and Singh (1993 b) adds their voice by arguing that despite the lack of agreement on the effectiveness of retrenchment as a strategy, it will continue to be a major part of long-term strategic planning in firms, and that it can result in positive benefits only if it is managed properly. However, (Bowman/Singh 1993 a) observes that empirical studies in this area have been far from conclusive and that one major reason for the lack of consensus on the relationship between downsizing and performance is the fact that in prior empirical research, this relationship was assumed to be linear. There is evidence now to believe that many contingency variables may be affecting this relationship and therefore, an investigation of these factors will shed more light on this process.

Conclusions and Recommendations

The Zimbabwean banks, a majority of which experienced challenging times during the year 2009 when the country adopted the multicurrency regime embarked on a massive retrenchment exercise which saw many workers losing their jobs. From the research findings we can conclude that the banks' problems were as result of low economic activity and shortage of cash. As a result of this many banks found themselves with a mismatch between income generation and costs of business. Therefore the major reasons for the massive retrenchments were to reduce costs on labour, to achieve cost savings on utilities, telephone, motor vehicle and communication, and other costs which cannot easily be quantified but are realized whenever there is staff reduction and finally to align their businesses in line with the new economic dispensation. With regard to other strategies that were implemented by banks before they retrenched, the research can conclude that the banks tried to adopt a shorter working week/shift, cut salaries by 50% and a freeze on head count. The research can also conclude that a majority of the banks' managers felt that retrenchment had a positive effect on organizational performance in terms of profitability, efficiency and worker morale in the short term. However, the majority of the managers expressed reservations regarding the effectiveness of retrenchment in the long run. Although a majority of the banks appeared to have had positive effects of retrenchment on their operations, we recommend that any retrenchment should be done together with changes in strategy, organizational structure and culture. This is because retrenchment for the sake of reduction on head count only will be met with mixed effects on firm performance: some short-term costs savings, but long-term profitability and valuation not strongly affected, many senior employees leave due to application of early retirement incentives and this may result in loss of institutional memory. Also the use of voluntary workforce reductions (buyouts) results in the most marketable employees leaving ("stars") which are difficult to control since all employees must be legally eligible to qualify. Early retirements and voluntary reductions often result in too many people quitting, and some are hired back as consultants at higher cost to the firm and as a result the short-term gains are eroded.

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