

# Retrenchment In Nigeria And Its Socio-Economic Effects

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## Abstract

The article examined the socio-economic consequences of retrenchment on the affected individuals, their families and the nation. Since retrenchment more often than not takes place suddenly, retrenched workers are ill equipped to face the unforeseen challenges that befall them after the incidence. Their plight is worsened by the fact that a sizeable proportion of them are relatively “too old” to find suitable job placement, learn or begin new ventures. Consequently, many of them become incapacitated, idle, unproductive, and sometimes stressed, frustrated and may eventually die prematurely. This paper reviews extant literature on the socio-economic effects and their implications on the nation, besides the individuals directly affected and makes far reaching suggestions for positive outcomes.

**Keywords:** Retrenchment, Socio-Economic Effects, Nigeria

## Introduction

Certain developments within the global economy have affected human capital to varying degrees in virtually all economies. In an environment of heightened financial crises and global competition, resulting in mass lay-offs, waves of mergers and acquisitions, privatization, the emergence of recession in some countries, and general weak economic growth in most sub-Saharan African countries for about a decade, the subject of retrenchment becomes rather topical and one which policy makers need to address speedily in order to mitigate its adverse effects on the society (Phillips, 2000)

“Retrenchment” or “Staff Rationalization” or “organizational restructuring” or “delaying” normally results in a number of people being thrown back into the labour market, with a sizeable proportion of them being relatively “too old” to find suitable job placement, learn or begin new ventures. Among these retrenched individuals are a sizeable proportion of semi-skilled or “uniquely skilled” individuals that may not easily find suitable paid employment, making life unbearable for them and their families (Zersch & Jolley, 2012)

Retrenchment, from a legal standpoint, is a dismissal that is attributable entirely or primarily to an real or planned cessation of business or an actual or anticipated reduction in the requirements of the business for workers to carry out work of a particular kind, either generally or in the place in which the employee is employed. In other words, retrenchment is the unintentional cessation of employment, job or occupation by the employer through no fault of the employee (Lewis, 1992; Wandera, 2013). Its essence is to have a slim workforce that the employer can cope with in its operations as well as fulfill her obligations. Organizations use retrenchment or right-sizing as cost reduction mechanism to deplete personnel cost; other cost reduction strategies employed by firms include cancellation of overtime cost, shift work arrangement, out-sourcing functions etc. (Huka, 2003).

In Nigeria, retrenchment of employees has become a common phenomenon in the administrative routines of high/medium performing and distressed public and private organizations with the banking industry topping the list of retrenchers (Ahmed, Kakkar, Sharma, 2016). It is often the natural thing to do whenever an organization wishes to reduce its operational costs to remain competitive. More often than not, little effort is deployed in order to ascertain

if the problems are attributed to employees' skill deficiencies or other compelling administrative or policy issues, such as ineffective processes and procedures that the organization needs to change.

The introduction of the structural adjustment program (SAP) in Nigeria in 1986, brought about the incidence of retrenchment and redundancy more forcefully in virtually all sectors of the economy and especially in the manufacturing and financial services sectors. Even after SAP was formally concluded, because economic recovery was slow, massive layoffs continued with it attendants' socio-economic implications, while youth unemployment rate tended to increase over time as well.

The economic and social settings in Nigeria are such that the growth indicators have stagnated while the poverty indices worsened. For example, the infant and maternal mortality rate at 84 per 1,000 live births and 8 per 1,000 live births far exceed the average for developing countries at 70 and 4 respectively, in the late 1990s and even presently. There is increasing de-industrialization, with capacity utilization rate down to 27% from 30% in 1998, while the Human Development Index (HDI) had deteriorated to 0.5 %.

## Retrenchment in Nigeria: Conceptual Clarification.

Retrenchment is simply workforce reduction. It is laying off of workers as a result of restructuring exercise in an organization, leading to redundancy of some of the workforce. According to Yemin (1983) workforce reduction is a long term strategy of laying off of workers due to economic, technological or structural changes, proposed either to reduce the number of employees in an enterprise or to change the composition of the workforce (Odufowokan, 2014). Redundancy, according to Section 20 (2) of the Nigerian Labour Act, 1974 is defined as “an involuntary and permanent loss of employment caused by excess manpower”.

Where the cause of retrenchment is redundancy, employers in general apply either of the following strategies: an ad hoc approach where there are no prescribed procedures, a formal policy that spells out the strategy to be adopted by the employer; applying the rules of a formal agreement that spells out the procedures to be followed when redundancies have been considered. Coffie (2016) categorised retrenchment into three types: involuntary separation where the decision to retrench is solely the employer's and employee makes no input in the resolution leading to his

retrenchment; voluntary separation is where the opinion of the employee is sought and considered before any decision is made and the worker chooses without pressure to leave; and lastly mutual separation where the decision to retrench is jointly agreed upon by both the employer and employee.

Some organisations endeavour at any time possible to avoid retrenchment situations and would rather allow normal attrition reduce the labour force steadily. This is meant to evade the adversity that comes with retrenchment as far as victims as concerned as well as the disruptions in production and resentful industrial relations. Indeed, workers find the threat of retrenchment demoralizing and extremely bothersome. With their source of revenue threatened, employees in unionized companies may inflict sanctions on the organization ranging from working to rule, strikes, and sometime picketing factory in an effort to keep their jobs (Bottomley, 1990).

## Review of Extant Literature

### Why Retrench?

Retrenchment is a term commonly used in Nigeria to describe massive layoffs. Retrenchment could be a response to the demand for higher wages and salaries, dwindling fortune. An example is the case of State Governments trimming down staff in order to pay the stipulated minimum wage/allowances. It could be a reaction to narrower profit margins or performance in a particular organization or a group of companies in a particular sector facing survival difficulties. Examples abound in the manufacturing and financial sector like banks and insurance institutions particularly during the period of financial distress in the early 1990s and the recent new banking reforms of 2004; and some manufacturing enterprises that had to grapple with the adverse effects of the structural Adjustment Program of 1986 under General Ibrahim Babangida Military rule (Phillips, 2002).

There are a number of reasons given for retrenchment. These could include low level of business activity requiring a decrease in the number of employees, possibly the number of workers employed for a particular job may exceed what is required, the job itself may have lost its usefulness and relevance, there may be major changes in the content of a job or work procedures (Bell, 1981).

Retrenchment could also arise as a result of corporate politics or merger or acquisitions or take-over. Examples abound in many banking institutions

where a group buys over the majority shares and lay off virtually all the top management staff to pave way for other "loyal" staff that will be trainable and introduced to a new corporate culture. Retrenchment also can arise as a result of technological progress and the displacement of vast human resources with techno-how machines and computers.

Generally, retrenchment is more common in situations of economic downturn or recession and it could be wide range (cutting across various sectors) or merely sectorial, that is, restricted to only a particular industry or a group of industries). In Nigeria for example, many textile firms in 1980s faced sudden but stiff competitions from imported textiles materials. Quite a number of them had to trim down their work force. The footwear industry also faced similar situation and responded likewise. Almost weekly, employers sack their workers without batting an eyelid. Phillips, (2002)

According to Udeme (2013), one hundred and thirty firms closed down in Nigeria in a few years. With studies showing that the Nigeria economy is not investment friendly and that the environment is not conducive enough for doing business, industries or factories operate at minimal installed capacity due to epileptic power supply, multiple taxation by different state regulatory agencies, dilapidated infrastructures, community restiveness etc (IMF, 2005; Owonibi, 2012). Hence, some firms are forced to fold up or relocate to other countries where business environment is more friendly and favourable (Samuel, Joshi; & Demory, 2008). This situation also makes it virtually impossibility for these retrenched persons to get back into paid employment.

Just a few years back, Nigeria witnessed a massive downsizing in the work force, employees' remuneration and other benefits (Ajede, 2011). The retrenchment programme also cut across government corporations like Nigerian Railway Corporation; Nigerian Ports Authority; Nigerian Airways; Nigerian Telecommunications Service; and other blue chip corporate institutions like Flour Mills Nigeria Plc; Nigeria Bottling Co. Plc and construction industries as well as service industries like Banking and Insurance sectors which increased the number of unemployment in the country (Cleary, 1989; Odeh, 2012).

Published academic discourse on organization's retrenchment decisions on employees and the effects on their families discloses that the management of organizations only evaluates

employee's output during downsizing exercises, undermining employees' performances and limitations. This is due to the increased pressure from excessive workload (Sharp & Lewis, 1992; Cameron, 1994; Borowski, 1998; Harnois & Gabriel, 2000).

In Nigeria, work in government and even private organisations officially begins on Monday through Friday from 8 am to 5 pm daily. These 40 hours per-week constitute the regular working hours. Majority of the employees, whose residences are far from their places of work, commute two to three hours daily to get to their offices on time. They also return home late at night, around 9 pm or later on a daily basis. Invariably, they are worn-out, grossly constrained by time and are unable to acquire new skills or manage other businesses to augment their income for survival after retrenchment. They are often confronted with financial burdens as a result of trying to sustain previous lifestyles (Anaf, Newmorn, Baum, Zersch & Jolley, (2012). Also they are barely able to afford basic family needs and as such began to deplete any savings they had ever made (Bamwonjobora, 1995; Fashakin, Odumade & Goran, 2007).

The consequences of retrenchment can also be negative for firms concerned. The decision to retrench costs organisations a great deal of money and other valuable resources. Compensation cost is incurred and trade unions are very much concerned about other factors such as the personal and social impact of retrenchment.

### **Modalities for Retrenchment**

Some institutions carry it out in piecemeal over a period of time so that they do not attract undue public attention. Others do it on a "once - and - for -all basis". Some institutions are known for their regular retrenchment exercise. They issue letters to affected staff or those rendered redundant are usually in the form of "termination of employment" or "dismissal" (in cases of gross misconduct) or "withdrawal of services". Where the services are "withdrawn" or "terminated", the worker usually goes home with all his entitlements (gratuity and pension where applicable). Where the employee is dismissed for gross misconduct, he/she goes home with much less, although in accordance with the terms of employment contract. Oftentimes, the letters of retrenchment are rather "cold" stating to the disengaged staff "your services are no longer required." Such retrenched staff may have spent 10, 15 or even 25 years in such employment, and would have gone home psychologically demoralized and

confused.

The modality of retrenchment in many Nigerian establishments is to target a percentage or number for workforce reduction, and to list the names for instance on the basis of (i) those over a particular age bracket (e.g. 40 years and above); (ii) those who had been queried or warned for one misdemeanor or other (whether frivolously or not); (iii) those with non-academic or professional qualifications; (iv) those with low productivity; (v) those with high rate of absenteeism (as a result of some accident or illness), and (vi) others with less well defined criteria, ranging from trivial to genuine reasons for laying off workers (Phillips, 2000). There are cases of efficient workers being laid off along with others for reasons of friendliness or closeness with previous regime or top management.

Where the reason for laying-off is economic, it is not uncommon to lay off performing managers, senior managers, and even general managers or executive directors in order to make the organization less "top-heavy" and in effect, reduce substantially the size of the salary or wage bill. In the private sector, sometimes the reason for lay-off is quite frivolous with a number of people being laid off, and a corresponding number being hired almost immediately with no discernible improvement in the quality or caliber of those employed. Indeed, many of the newly-recruited have to undergo serious training before they could fit in to the firm and make meaningful impact or contributions on the organization.

In Nigeria generally, the retrenched worker, whether in the private or public sector receives his/her retrenchment letter (along with others and usually on a Friday) unexpectedly, packs his/her stuff from the drawers and goes home – just like that. Some see it as an opportunity for new venture; others remain confused, stressed and psychologically frustrated for a long time and remain unemployed, while a very small percentage, probably one percent or less, go to the courts to fight sudden termination of employment. Statistics are unavailable to show how many win their cases or how many employers get the upper hand (Phillips, 2000). Even in unionized establishments, retrenchment goes on in Nigeria on a regular basis, with the hapless employees trying to resettle him or herself on to another job, with about half of them unable to do so over a very long period of time. The overall outcome is increased joblessness and underemployment with the attendant anti-social outcomes.

### **The Regulatory Infrastructures on Termination of Employment in Nigeria.**

At the Federal Level, there is the Ministry of Employment, Labour and Productivity. Other notable government labour agencies promoting employment relationships in number and quality or welfare of the employed include the National Directorate of Employment (NDE), the Chartered Institute of Personnel Management of Nigeria (CIPMN), the defunct National Social Insurance Trust Fund (NSITF) now (PENCOM), the National Manpower Board, the Nigeria Employers Consultative Association (NECA), the Nigeria Labour Congress (NLC), and the National Industrial Court (NIC).

Nigeria's legal system is based on the English common law, with certain modifications with regards to retrenchment and termination of employment. The most important statutes are the Labour Acts of 1974 as amended and the Trade Disputes Acts of 1976. The Labour Acts is restrictive in scope and excludes, for instance, person exercising administrative, executive, technical or professional functions.

Nigeria has no general statutory principle against unjust dismissal or on retrenchment. Dismissal is largely governed by common law, as affected by the Labour Acts. The Labour Acts, 1974 (Section 11(5) and 20) retains the common law right of an employer to dismiss a worker for serious misdemeanors and to lay - off or retrench workers on grounds of redundancy. There are, however, certain procedural steps for redundancy or retrenchment. The statutory minimum period of notification (under section 1 of the Labour Acts, 1974) varies from one day's notice for an employee of less than three months' notice for an employee that has done five years or more. Payment in lieu of notice is permissible. The following procedural steps are supposedly mandatory. Section 20 of the Labour Acts, 1974, in cases of redundancy or retrenchment stipulates that:

The principle of last in, first out (LIFO), subject to factors of skill, ability, merit and reliability is to be applied when considering retrenchment or redundancy;

The employer is to inform the trade union or workers representatives of the reasons for the exercise and the anticipated extent of the redundancies;

The employer is to use his /her best endeavours to negotiate redundancy payments. (Labour Acts, 1974). Except in cases where there are strong trade unions, most employers in the public and

private sectors retrench when deemed fit and the criteria for this together with the severance pay made are usually not questionable. Even where there are strong trade unions, retrenchment is still carried out after discussions with the unions.

On many occasions, however, the National Industrial Court (NIC) has awarded severance pay as additional compensation to "unfairly dismissed" workers. Claims for wrongful dismissal are usually taken to the civil courts, with claims usually limited to damages.

While many employers are mindful of the need to treat retrenched workers fairly, some show total disregard on ways and manner in which their long and attached employees are retrenched. Owing to the considerable delay in the judicial process, aggrieved retrenched workers do not often bother to dissipate their limited financial resources to what turns out to be unproductive litigations due to our weak legal system. In general, people who are retrenched accept their fate and re-emerge in the labour market or commence new businesses or remain idle or get depressed, worn-out and eventually died untimely.

### **Socio-economic implications of retrenchment**

The social implications of retrenchment are far reaching, having multiplier effects not only on the individuals retrenched but their nuclear families, friends and also the society at large. These effects are outlined and explained below:

#### **1. Poverty in the Land.**

A major socio-economic outcome of retrenchment is that almost half of the population today is faced with the paradox of poverty in the midst of plenty, in spite of the plethora of poverty alleviation programmes introduced since the 80s and in which billions of Naira are invested.

According to a World Bank Report in 1997, 57.7 percent of Nigeria's urban population was poor in 1994 and 66.2 percent of the rural population lived below the poverty line. The socio-economic setting is as follows;

Low doctor/patient ratio;

50 percent of Nigerians live below the poverty line in spite of the country's enormous resources;

Poor health delivery system, with only 62 percent having access to primary healthcare;

High level of malnutrition with most Nigerians consuming less than one third minimum required

protein and vitamin in-take due to low purchasing power;

High infant mortality rate;

Low life expectancy (54 years);

High maternal mortality rate;

Inadequate access to safe water, (only 40 percent has access to safe water);

Low purchasing power because of generally low real wages;

High inflation rate;

High unemployment rate;

Frequent retrenchment exercises;

Absence of social welfare facilities for the unemployed, the retrenched or the aged;

About 85 per cent of the urban population resides in single rooms with about 8 residents per room on the average.

The retrenched faces a harsh economic climate where his terminal benefits if not wisely invested or deployed are eroded by inflation and although in recent times, there emerged job placement agencies and "job fairs," those who really need these have restricted access to information in the sense that they can no longer afford to buy the daily newspaper or internet data with which to access the necessary information. There are now also, some websites that the retrenched can subscribe to and showcase their curriculum vitae (CV) for possible employment. However, applicants are sometimes requested to register their CVs for a fee without certainty that they will be invited for interview thereby depleting their very scarce and limited resources.

## **2. Manpower Drainage.**

"In the past, movement of people used to be restricted almost exclusively to intra-city but the movement of people from developing to developed countries has assumed a regenerated momentum in the 80s and 90 respectively" (Fajana, 2000:174). The 1990s witnessed an unprecedented exodus of many Nigerians into the developed and even developing neighboring countries. Apart from the harsh political climate, sudden retrenchment and inability to retain good jobs led many to "check out" of the country with their entire nuclear families. Many of those that "checked out" included teachers, nurses, doctors, university professors, top class civil servants, bankers, industrialists, many university graduates as well as skilled and semi-skilled labour. Many productive Nigerians are therefore providing a boost to the labour force of other countries, particularly in some specialized areas such as neuro-surgery and

aeronautics thereby causing a serious national brain drain. Fajana, (2000).

## **3. Unemployment and Underemployment**

A good number of those retrenched go into "cosmetic employment" that translates to doing nothing. Some do door-to-door marketing of unpopular products and talk about getting "good" commissions, Network marketers on physical and nonphysical products, while others print business cards that indicates "jack of all trades". Having worked in paid employment for decades, many are not versatile to retrain themselves or flow into other types of ventures. The result is underemployment or in some areas cases unemployment is a heavy social cost to society.

## **4. Decline in Social Values and the Emergence of Advance fee Fraudsters "419ers"**

Prior to the era of wide scale retrenchment in the late 80s and 90s, the incidence of advance fee fraud, popularly known as 419, was negligible. Retrenchment, unemployment and redundancy of able bodied men and women have led to a general decline in social values and Machiavellian approach towards earning a living by all means even including kidnapping, internet fraudsters, ritual killings and sundry. It should be noted that the manner in which most 419 frauds is perpetrated shows some level of intelligence, skill and a lot of homework. The 419ers usually know a bit about their target market and they study his or her business interests and background before they strike. Oftentimes, they are patient and many of them work under the law of possibility that if they fail eight times of ten, for example, they will succeed two times. Furthermore, they have studied the laws of the land and the slow judicial process, realizing that they cannot be jailed outrightly and may even be adjudged "not guilty" for lack of evidence "beyond reasonable doubt". They also rely on the fact that many of their high profile victims would rather suffer in silence than admit being a prey to 419ers.

## **5. Fall in the Standard of living.**

In 1995, Nigeria was ranked 19<sup>th</sup> in the list of poor countries in the world with a per capita income of about US\$260, which was what Nigerians earned in 1972! Although there are no hard statistics to show direct correlation of retrenchment with the fall in the standard of living, the 1990s represented a period of mass retrenchment throughout Nigeria. Nigeria in the late 1990s suffered reversals in terms of income

generation, growth in productivity, and economic development. Manufacturing capacity utilization rate which was an average of 70 percent in 1980 had fallen to 40 percent in 1990 and to 27 percent as at end of year 2000. This phenomenon coupled with mass retrenchment in other sectors of the economy impinged seriously on living standards. The era of the 1990s brought with it the “tokunbo cars” or fairly and well used vehicles, second hand machinery and equipment, a proliferation of what is known as “bend down markets” for virtually every commodity ranging from under wear, dresses, suits, plates, to furniture, electronics and spare parts. The 1990s represented also the period of the emergence of many fake products, fake values and fake individuals. Retrenchment and high unemployment level among youths and fresh university graduates impoverished many families. In some cases, both husband and wife lost their jobs at the same time, whilst child labour became more common with everyone fending for him/herself. For those retrenched and unable to source commensurate employment, fall in standard of living was inevitable.

#### **6. Resurgence of Social Vices and Crimes.**

The period of mass retrenchment and high unemployment rate also coincided with increase wave of armed robbery, devious means of waylaying vehicles on express roads, robbery at sea and airports, insurgencies like Boko-Haram attack, oil theft, youth restiveness in some coastal areas, daylight and midnight robberies. Prostitutions (direct and veiled or hidden) grew as the breadwinners became bread-takers, whilst ritual killings also increased. These unsavory developments did not arise solely because of retrenchment, but no doubt retrenchment has been a contributory factor. Some families split involuntarily with the husband working in one country, the wife in another country and the children elsewhere with mother or father in-law. Where the burden of bread winning fell too heavy on either the husband or the wife, in some cases, one of the parties opted for separation. The rise in costs and the poor state of infrastructural facilities has also not made adjustment easy. The government also does not have in place, programmes or policies to rehabilitate workers who lost their jobs during their productive years (60 years and below)

#### **7. Depression/Death**

Examples abound of some individuals who could not adjust to forced retirement or retrenchment (in some cases announced on radios, televisions or in newspapers) and who spent their remaining productive lives either pursuing their perceived

enemies or falling into several depressions. In some cases, a few died suddenly of seemingly simple medical conditions and there are cases of suicide (where top officials who had served dutifully for years were retrenched or forced to retire overnight for no known offences, forced to vacate official quarters, and because they had hired out their private houses, or had nowhere to go). There are also incidents of where a top official or manager had borrowed to build or buy a house and his/her total entitlements were netted out against the loan, thus sending him or her into the labour market with paltry amount to fend for himself or herself and the nuclear family.

#### **8. Lack of Commitment to Work Ethics.**

Owing to the incidence of mass retrenchment from time to time in both public and private sectors and in the public and private sectors and in the universities and polytechnics, many employees became less committed to their employers due to real job security. The result is that many top civil servants, managers, distinguished professors, engineers and doctors in government hospitals and others use “official time” and sometimes “official resources” to run their businesses as a guarantee against unexpected workforce reduction. The absence of clear regulations to protect workers/employees from unexpected layoffs is partly the cause. Unfortunately, this is the legacy that this present generation are passing on to its youth. The implications are quite serious in terms of social values of dedication and commitment to work, and unalloyed loyalty in return for wages or salaries paid.

#### **9. Growth in Entrepreneurship.**

One positive outcome of the series of retrenchment is the evidence of capacity and growth in entrepreneurship. Today, many young men and women run thriving businesses which they built from the scratch by their own efforts. Such businesses include manufacturing, non-oil exports, food processing, trading, financial intermediation, management and financial consultancy, private educational institutions, oil and gas related businesses, to mention a few

On balance, however, the negative social implications appear to far outweigh the positive effects of sudden workforce reduction, particularly under harsh economic climate. The policy makers may wish to conduct studies on how some countries handle workforce reductions, with the aim of mitigating the undesirable and unwanted negative spin-off of retrenchment.

### Conclusion and Recommendations

Many factors including massive retrenchment worsened the economic difficulties experienced in Nigeria. The value system which Nigerian has been known for has been misplaced with ill behaviors. Honesty and hard work are no longer valued or rewarded. Instead mediocrity and incompetence are tolerated and celebrated. Moral decadence and bankruptcy characterised by greed, selfishness, dishonesty, craftiness, corruption, indiscipline, injustice, immorality and our short-term-return mind set constitute hindrances to the attainment of national development plans.

Retrenchment and growing unemployment have no doubt contributed greatly to the breakdown in family and societal values. The emergence of advance fee fraud (419) worsened the state of bribery and corruption, abysmal level of poverty for about half the population, increase crime and consequently greater threat to life and property are not unconnected with unemployment, under-employment and retrenchment.

In order to curb the sufferings of the retrenched, the research recommends the adoption of valuable strategies like pre-retirement training for all category of staff; Inclusion of pre-retirement education (capacity building) during induction for new staff in preparation for retirement date in future both in government and private sector to enable them to prepare in advance on how to abate the effects of retrenchment. It also suggests strict regulation and improvement in the management of Pension Funds by the regulatory Authority and the PFA. Bulk payment of retrenched accrued pension savings rather than meagre monthly stipend of the accrued pension savings to the retrenched to enable each retrenched to start up small business of his/her choice for sustainability. Government also can give assistance to organizations in difficulty due to harsh business environment.

From the studies carried out by the ILO and the OCED, it was established that employment security stimulates investment and does not create bottleneck in the labour market. It encourages employers to invest in training and up-skilling their workers. According to ILO labour market regulation has some economic benefits, which imply that economic flexibility can be facilitated by the existence of relatively extensive regulation of the labour market. It is on this premise that job security is desirable within reasonable limits and that the pains of retrenchment or dismissal should be

reduced with protective regulation on workforce reduction, dismissal or retrenchment such as embedded in the PENCOM Act, of 2004; inclusion of unemployment benefits or social security scheme with regards to collective redundancies.

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