TOPIC: THE IMPACT OF DOWNSIZING ACTIVITIES IN THE BANKING INDUSTRY ON THE LIVELIHOODS OF AFFECTED EMPLOYEES IN GHANA.

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Background to the study

To manage businesses successfully and maintain a continued improvement is a big challenge for today’s managers. With the growing competition, coupled with rigorous economies at stake, the only way to stay in competition is to delay or stay lean. To achieve a lean structure which gives efficient management would lead to “downsizing” in existing companies.

One reality facing leaders of today’s organisations is that continual growth and expansion may not be possible. All around us, we see evidence that some organisations have had to stop growing, and many are declining. Downsizing has become such a part of the revitalization cycle of modern organisations that is no longer considered only in connection with the decline and failure of organisations but as a routine part of management (Daft 1995).

Cameron and Freeman (1993) state that downsizing is a strategic decision made by an organisation and that the term should not be confused with layoff. They state that the difference between layoff and downsizing is that layoffs are individual level of analysis while downsizing is a broader concept applicable to other levels of analysis than solely individual level. Additionally, downsizing is a strategic decision while layoffs are an operational mechanism used to implement a downsizing strategy.

Downsizing is defined by Budros (1999:70) as “an organisation’s conscious use of permanent personal reductions in an attempt to improve on its efficiency and effectiveness”. Downsizing can take place at the public sector and the private sector. Usually the severe competition and the economic dependency and scarcity of financial resources force companies and the government to right size.

It is important to point out that downsizing can be approached from at least three different perspectives: individual level, organisational level and strategy level (Cameron 1994). To become more competitive, companies make strategic decisions to gradually lower payroll numbers (Anthony et al 2004: 434).

As the marginal productivity theory explains, a firm should only add variable costs to its fixed costs so long as it brings value to the company. For example, labour is a variable cost necessary for producing goods. Hiring too many workers when materials or equipment to produce goods are limited will increase costs while not adding value to the company (Clarke 1965).
The need for downsizing has inspired various innovative ways of removing people from the payroll. Cameron (1995) identifies three approaches to downsizing:

a) a workforce reduction approaches in which the primary aim is to reduce head count mainly through layoffs, attrition, or incentive packages (e.g., early retirement);

b) a work redesign approach in which the primary aim is to reduce work through eliminating redundant levels, functions, or activities; and

c) a systematic approach in which the primary aim is to change the organization’s culture so that all employees take responsibility for never-ending improvements in efficiency, valued-added activity, and waste reduction.

He further states that the outcome of downsizing has seen negative effects on organizational and individual performance.

In theory downsizing is presented to have positive outcome for the organization. In many situations, downsizing did accomplish what management had intended and in others, unintended and negative consequences resulted. Although organizations are continuing to use the downsizing tactic as a cost cutting strategy, they are beginning to weigh the relative costs and benefits against the negative impact downsizing have on employees. Most of the research literature on downsizing have addressed its significant negative impacts, especially for individuals West (2000).

Downsizing researchers (Cameron, Freeman, and Kozlowski) state that the survivor reacting aggregate to impact organizational effectiveness. From both theoretical and practical point of view, there exists the need for the understanding of the downsizing effects on the individual who leaves the organization. Organizational downsizing constitutes a set of activities undertaken on the part of the management of an organization, designed to improve organizational efficiency, productivity and or competitiveness West (2000). Downsizing represents a strategy implemented by managers that affects the size of the firm’s workforce and its work processes (Cameron et al 1993). They further states that downsizing has four major attributes that help define and separate it from related, but non-synonymous concepts such as decline and layoffs. These four attributes, intent, personnel, efficiency and work processes are described as follows:
a) Intent may occur intentionally as a strategic proactive response designed to improve organizational effectiveness. This response may involve mergers, acquisition, sell offs or restructuring to better enable the organization to meet its mission or fill an environmental niche.

b) The personnel attribute of downsizing usually involves reduction in personnel. However, downsizing is not limited entirely to personnel reduction. In some downsizing situations, new products are added, new sources of revenue opened up and or additional work acquired. Even though some people may be added, the overall process results in fewer numbers of workers employed per unit of output as compared to some previous level of employment.

c) Downsizing occurs either reactively or proactively to contain costs, enhance revenue, enhance efficiency and or bolster competition.

d) Downsizing activities may bring about changes in the work processes through restructuring and eliminating work or some redesign. After a reduction in the workforce, fewer employees remain to do the same amount of work, and this affects what work gets done and how it gets done.

A major finding in the downsizing literature (Cameron and Freeman 1994) is that most organizations do not accomplish the desired improvements, but instead, experience an escalation in negative consequences. Downsizing is viewed as having a profound effect on the organization and the personnel including those who are terminated and those who survive. Aside the individual and organizations being affected, downsizing also has impact on the economy. As workforce are being downsized people lose their jobs and as a result lose their incomes, so they spend less, whiles those workers who remain become afraid of being laid off are also likely to cut down on spending too. Hence all other things being equal there will be less aggregate demand in the economy which will cause sales to fall and in effect, affect economic growth. This means that there is a direct relationship between wages and labour supply.
When a country suffers downsizing, the supply of labour will be high while demand for labour will be low.

\[
\begin{array}{c}
\text{wage} \\
\text{S2} \\
\text{S1} \\
\text{D2} \\
\text{D1} \\
\text{Q2} \\
\text{Q1} \\
\text{quantity}
\end{array}
\]

**Fig 1: effect of downsizing on labour**

*Source: Researcher’s own construct*

From the diagram above, as companies downsize, it increases the supply of labour from S1 to S2, thus downsizing has lower demand for labour causing the demand to fall from D1 to D2 whiles quantity demanded also falls from Q1 to Q2, considering the effect of downsizing on labour market. Reduction in workforce as depicted in fig. 1 shifting DD and SS lines downward and leftward respectively causing an increase in labour surplus.

Walde and Weiβ (2007) stated that as downsizing reduces fixed costs of administrative and managerial services, it helps to increase the wage gap between skilled and unskilled labour. In the developed economy, production processes are more skill intensive than administrative and managerial services. Nonetheless, this assumption of factor intensity may not be applicable to developing economies like Ghana where they rely on production of light manufacturing goods using less skilled labour. Using the dualistic production structure downsizing bridges the gap between skilled and unskilled labour, and increases the level of manufactured output and reduces the unemployment ratio in the urban sector. These favourable effects improve the social welfare of the economy (See Beladi and Chao 2010).
On the other hand, it lowers wage rate since downsizing is thus referred to as a reduction in workforce which lowers the demand for skilled labour. Employers tend to offer low wage for employee since there is excess supply of labour.

Rational For the study

Downsizing has more often had a negative effect on both organizations and individuals than a positive effect (Brockner, 1988; Kozlowski, et al 1993; Henkoff, 1994; Cameron, 1997). Despite its abysmal track record, downsizing remains a strategy of choice for organizations faced with excess capacity, bloated employee ranks, sky-high costs, and declining efficiency.

When organisations downsize, unions protest, affected employees fight back and citizens also complain all because of the perceived negative impact of downsizing on livelihoods. Furthermore, when organisations downsize, affected employees lose their incomes and livelihoods such that they do not get back to normal life. Finally there are no evidences to back/support or go against the fact that downsizing has a positive effect on the livelihoods of the retrenched employees.

Research Objectives

- The objectives of this study are:
- To assess how downsizing is implemented in the banking industry in Ghana
- To assess the socio-economic impact of downsizing activities of the banking industry on the livelihoods of affected employees in Ghana
- To assess the socio-cultural impact of downsizing activities of the banking sector on the affected employees.
- To ascertain whether there could be certain institutional interventions available in Ghana to force organisations to use other alternative to job cuts other than downsizing
- To establish the success stories of retrenched employees who have become entrepreneurs
- To make recommendations for the improvement of the implementation of downsizing activities in the banking industry.
Research questions

In the light of the above discussions the Research Questions for the study is as follow:

- How is downsizing implemented in the Banks?
- Does downsizing have any socio-economic impact on the livelihoods of the retrenched employees?
- Does downsizing have any socio-cultural effect on the livelihoods of the retrenched employees?
- Are there alternative ways of getting firms leaner other than downsizing?
- Can retrenched employees become business owners and employ others as well?

Scope of the Study

The study is intended to find out the impact of downsizing of the banking industry on the livelihoods of the affected employees. The research would therefore be carried out using the banks that have gone through downsizing recently (three years back) including employees who have been retrenched from such banks. This calls for selecting banks like Barclays (BBG), National Investment Bank(NIB); Societe General Social security Bank(SGSSB); ECOBANK and Access Bank which have recently downsized all in the name of getting leaner.

Methodology

Research design

A research design constitutes the blueprint for fulfilling research and answering questions. It includes an outline of what the researcher will do from writing research questions and their operational implication to the final data analysis. The research design for this thesis will be a survey. This design was selected because Robson (2005) explained that a survey research comprises a cross-sectional design in relation to which data are collected predominantly by
questionnaire or by structured interview on more than one case (usually quite a lot more than one) and at a single point in time in order to collect a body of quantititative or quantifiable data in connection with two or more variables (usually many, more than two) which are then examined to detect patterns of association; and this research work will follow the pattern described above.

Source of Data

The study will use both primary and secondary data. The primary data will use both structured questionnaires, structured interviews to provide adequate coverage for the purpose of the research. The questionnaires would be administered through the Human Resource Departments of the banks involved, whereas the interviews would be directed towards the retrenched employees. The secondary data will include documentary materials from each organization which includes the company reports, newsletters and other printed materials (e.g., newspaper, journals, text books, conference reports, articles, and training packages).

Sampling Technique

Convenience sampling would be used to select the banks for this study. This sampling was chosen because Bryman (2008) stated that in the field of organisational studies, it has been noted that convenience samples are very common and indeed are more prominent than samples based on probability sampling. Furthermore social research is also frequently based on convenience sampling. The sampling technique to be used for the administration of the interview would be snowball sampling. The respondents needed should have served in the downsized organization prior to, during, and after the downsizing and must have been actively involved in the actual planning, development, and execution of the downsizing endeavour. However, respondents would also be selected on the basis of the researcher’s individual judgment.
Data analysis Technique

Data would be analysed both qualitatively and quantitatively. The questionnaires from the organisations would be analysed quantitatively using the appropriate software, for example SPSS. Whereas the interview conducted with the retrenched employees would be analyzed qualitatively using the appropriate software for example NVivo which is a computer assisted data analysis software.

Significance of the study

A study on the impact of downsizing activities of the banking industry on the livelihoods of affected employees is important for several reasons. For example as downsized employees may decide not to work again for fear of being retrenched again. In view of this, this study will go a long way to give much attention to the rising rate of unemployment to Government of Ghana coming from the banking sector. Secondly, this work when completed will help the banking industry to choose an alternative to job loses such as, a freeze on new hiring, enforcement of retirement ages, outsourcing and the like rather than downsizing which goes a long way to affect the livelihoods of the affected employees.

Finally the study will ultimately benefit the retrenched employees who become shocked during downsizing and think cannot pick up the pieces to start life again to know about the success stories of others who have survived such shocks and have come out successfully adding their quota to the economy of Ghana.

Limitations of the Study

Although work had not yet started the researcher is anticipating the following limitations. Time constraints, locating a good number of the retrenched employees for data collection; having access to detailed information from the banks. Other limitations that may arise from the actual work done will be recorded.
Organisation of the study

The study will comprise of five chapters. The first chapter will include the Background to the study, the Problem Statement, Objectives of the study, Research Questions of the study, Scope of the study, Significance of the study, Limitations of the study. Brief Methodology of the study and the organisation of the study. The second chapter will deal with the review of related literature. The third chapter will deal with the methodology of the study which includes Sources of the data. Population and Sampling Techniques, Data collection instruments, and data analysis techniques to be use for the work. Chapter four will deal with the analysis and discussion and presentation of data. The final chapter will deal with the summary of findings, conclusions and recommendations.

Study Time Table

The first year of the study will be used to gather literature for the work relating to the organisational effectiveness theory and the productivity theory as well as going through the taught course work for the program. The second year will be the collection of data and analysis of data. Here various publications regarding the work would be made as well as travelling to Denmark. The third year will be the final compilation of the thesis for defense.

References


