Post-Consolidation Employment Growth In The Banking Sector: The Case Of First Bank of Nigeria Plc

Aniebo C. A. J, Madonna University, Okija
Oguanobi C., Anambra State University and
Akamobi A. (Ph.D), Anambra State University, Igboariam

Abstract

This paper evaluates post-consolidation employment growth in the Nigerian banking sector using First Bank of Nigeria Plc as a case study. Employing an empirical simple correlation analysis between employment growth and earnings performance, and between the ranks of employment growth and growth in gross earnings, it was found that, contrary to a priori *expectations, the correlation was very low in both cases with explanatory power of only 1.53% in the case of Pearson's simple linear correlation coefficient. This development was attributed to banking sector's efficiency wage payment policy, which policy promotes unemployment. Labour-intensive growth path was recommended for the banking industry in Nigeria which remains a labour abundant, developing country, and which has been plagued by persistent and high unemployment for decades.*

Introduction

The principal goal of the 2005 bank consolidation exercise was to position the banking sector to play its developmental role in the Nigerian economy. Long before the exercise was conceived, the sector's inability to perform this role had been recognized and explicitly told the world by the World Bank (2000). By developmental role is understood a set of activities and an accompanying posture which are quite different from or at least, are additional to, and perhaps rank equal to the established financial intermediation role, which banks play in all economies of the world, whether emerging, developing, or developed.

A crucial aspect of this developmental role is employment generation which is both consequent to activity boost following financial intermediation, and inherent in financial sector growth. Financial sector growth itself is a fundamental societal expectation of the financial sector being directly linked as it is to all sectors of the economy and as a result to the growing sectors of the moment. In other words, if the economy is growing at any moment, this growth can be disaggregated and attributed to the sectors responsible for it. Such sectors would necessarily have depended on financial intermediation and its provider the financial sector. In the absence of existing spare capacity, if the financial sector was unable to step along in this growth, such growing sectors would have been hampered, perhaps severely limited and probably unable to grow. Therefore quite apart from the possibility of self-engendered growth through such routes as independent productivity improvement initiatives, or exogenously wrought growth generated by such shocks as government-determined consolidation exercise, an accompanying or enabling growth should necessarily take place in the financial sector once the economy is growing.

It is along such thoughts that growth finally emerged as a fundamental societal expectation of the financial sector and employment generation an inherent part of it, especially in the context of a developing economy.

How has it been with Nigeria's post consolidation banking sector? And why has it been so? What are the implications of this outcome? This paper proposes answers to these questions using First Bank of Nigeria (FBN) PLC as a case study. In section 2 we highlight the relevance of employment generation in an economy's financial sector. In section 3 we place FBN plc in context. In section 4 we examine its performance and carry out empirical correlation analysis in section 5. Section 6 concludes.

2. **Employment generation in a developing economy's financial sector**

Employment objective of some sort is a basic macroeconomic goal of governments all over the world. This has to be so because growth and stability are directly linked with reasonable degrees of employment. Even with capital-augmenting total factor productivity growth, labour remains a defining, indeed the dominant factor of production. In a developing economy situation where capital is deemed scarce and labour resource abundant, it is obvious that employment and the quality of human capital should remain uppermost in the development agenda. People are also the ones to cast votes in democracies and one would obviously vote for whoever gave her, or is likely to provide her with, a job. If there is disaffection and civil unrest it invariably comes from dissatisfied and idle people, not machines, and one good way to keep people off the streets is to ensure that they are actively and meaningfully engaged. McConnel and others (2010) note that a whopping three quarters of all income go to labour, not capital, in a developed capitalist economy. All these make it understandable that governments of both developed and developing economies should bother greatly with employment.

The structure and functioning of labour markets in developing countries of which Nigeria is a (permanent?) part exhibit features which set them apart. These are of interest for all efforts aimed at improving employment and productivity. In the first place there is a high incidence of underemployment, non-wage employment, child labour, agricultural engagement and occupational multiplicity (Todaro and Smith 2003; Balogun and others 2003; Agenor & Montiel 1999; UNDP 2003). More importantly, the cleavages in poor societies created and deepened by factors such as ethnicism and religion, give rise to labour immobility, just as the numerous government legislations and trade union activities lead to wage rigidity; these then result to labour market segmentation. Some theorists (eg. Mazumdar 1989) have suggested three labour segmentation levels for developing economies, namely, urban-formal, urban-informal, and rural. This is a fusion of the formal/informal theoretical postulation, and dualism (or the urban/rural dichotomous categorization). It can be shown, following these recognitions, through which channels shocks can take effect in the labour market and what outcomes may arise. For example, following a negative external shock in the form of an autonomous reduction in exportables in a small open economy (e.g. Nigeria and the crude oil price crash), if there is wage rigidity in the formal sector (as Nigeria has), wage flexibility in the informal sector (as exists in Nigeria) and immobility of labour (consequent upon constraints inherent in segmentation), those that become unemployed following reduced level of exportables cannot be accommodated in the informal sector thereby exacerbating unemployment.

A consequence of labour market segmentation is wage deferential. This tends to be large between the urban formal employment and the rest. To reduce shirking, labour turnover and

attendant costs, firms in the urban formal category find it rewarding to pay wages above market clearing levels otherwise known as efficiency wages. Efficiency wage models postulate that labour productivity is determined by real wages paid. As a consequence wages are set to maximize efficiency units of labour per Naira of expenditure rather than to clear the market. In the so-called Gift Exchange hypothesis the payment over and above market clearing wage is the gift to the staff in exchange for the employee's gift to the organization of his loyalty and productivity. Nigerian banks' practice of paying their workers for 13 months within a 12 months period is a case in point. Velenhik (1996) argues that for any given level of output, firms paying efficiency wages actually hire fewer staff. Efficiency wage is therefore considered a direct cause of unemployment since, like all monopolistic competitors, firms paying such wages seek equilibra which maximize their welfare but which often differ from levels that maximize societal welfare.

The financial sector, and banking to be specific, is extremely important in an economy because of its ability to create money. This ability positions it in such a way as to be able to aid or impede pass-through of government's monetary policies and often of fiscal policies as well. In addition, the low structural sophistication of developing economies gives banks a dominant position in the financial sector and a pride of place in the economy, being the main source of investible funds. For these and other reasons they have been heavily regulated by governments and repressed over the years and used in various ways including seingnorage to finance development. Financial repression is thus both a feature and an instrument of underdevelopment.

While this phenomenon has been widely studied by scholars and practitioners, no study to our knowledge has traced the links to employment growth in financial intermediation sector, or focused on banks in the Nigerian economy (or financial sector generally) and their internal employment generation. As a service industry and a major sector, financial intermediation should be a major employer of labour, of high-skill labour, irrespective of level of technology. In a developing economy situation there should indeed be a deliberate policy to pursue a labour intensive growth path for the financial sector, which can then be supportive not just of general societal employment growth but of the equally important and concomitant manpower development. This study is intended as a preliminary step in that direction.

3. First Bank of Nigeria Plc in Context.

It all began in the 19th century. Through the many booms and bursts of the 20th century Nigerian economy, the bank successfully adapted and in the 21st century became the first Nigerian bank to establish a global custody business. With the unexpected and shocking CBN intervention and shake up at fellow, so-called first generation bank (Union Bank) and the metamorphosis of Standard Trust Bank into United Bank for Africa (UBA) plc, First bank became the only one of its generation left standing, and thus the personification of Ancient Solidity, whose only challenge remained the demands of modernism.

"The only commercial bank that ever performed the traditional function of a Central Bank, including the issue and distribution of specie in West African region", it was the first to advance (in 1947) a term loan to the colonial government. It was also the first to establish a wholly owned

subsidiary in the United Kingdom and the first to place an offer of N100billion enthusiastically oversubscribed (by 750%) in the Nigerian capital market (FBN, 2007).
A plethora of awards in all aspects of banking business is what is expected of an organization possessing the credentials described in the proceeding paragraphs. For example, best foreign exchange bank award, best trade finance bank award, best bank award, best bank stock award, best quoted company of the year award, etc. The harvest of awards include some highly sought-after ones like CBN's best SMESIS Support Venture Capital Company, and World Bank's Emerging Markets Banking Achievement Award for Africa. Opinions have been heard to the effect that some of the awards had to go to someone, in any case, and that their initiation was not uninfluenced by the awards givers' need for recognition. Perhaps so. But it was to First Bank that the awards received went while there may have been other banks that may have strongly desired the recognition with a view to shoring up their public image and business.

The awards apart, the bank found a way, despite its conservative tradition, to pioneer electronic money transfer, which is the epitome of modernism and the direction of development of banking business globe-wide but is at the same time highly risk prone on account of its appeal to tricksters and fraudsters. As a reward First bank now leads in ATM transactions in value and volume. Only a clear leader can achieve the overall most capitalized stock for any year as the bank did in 2008.

First bank can therefore be rightly considered as representative of Nigerian banking scene, and positively so, since it has managed to avoid the distress which is a historical feature of banking business not just in Nigeria but all over the world including United States of America (which presides over the World Bank) where some of the finest and most honoured names in banking fell away with the most recent financial crises. What most aptly qualify First Bank for this role include its history - it was there before Nigeria was born as an independent nation and helped nurture the nation to its handsome fifty years of age; its stature in terms of deposits, market capitalization, branch network and foreign reach, all of which, taken together make it first; and the singular, rather un-Nigerian effort to transform the bastion of long standing and highly conservative capitalism to a modern, service-oriented, "service" organization.

Perhaps seeing how awkward it must be for an elephant (the bank's chosen symbol) to be responsive, the bank promotes a brand image whose essence is said to be "dependably dynamic". But why does the simple insight elude the bank that it should jettison the sluggish and dumb looking elephant (admittedly solid but certainly un-dynamic, infact sluggish) for first, which after all is its name? Elephant and first hardly go together because our concept of first (among equals) often emerge from a race. "Strongest", "dependable", "solid", and their like would probably be more fitting for an elephant. And what a sight - an elephant in a race! It is probably for this reason that a competitor choose "Stallion" (or was it the reverse?) Anyway other banks have sensibly stayed away from such primordial picture-speaks.

In any case, insight is still lacking in Nigerian banking scene; genuine innovation is absent. What is there is merely replication, doing in Nigeria what had been done in Europe or the US at an earlier time and making a fortune out of it. It is therefore not surprising that the century old flagship, First Bank, with the finest international connection and exposure is unable to surpass

Nigeria in international credit ratings (e.g. by Standard and Poor's as well as Fitch). Nigeria whose rating is only grudgingly improving with the wise use of oil windfall to pay off accumulated foreign debt.

4. **Performance Review**

(a) Financial Sector.

What proportion of employment in Nigeria did the financial sector provide just before and post banking sector consolidation? Much less than 1%. As Table 1 shows, jobs attributable directly to the financial sector (including insurance) remained below 0.6% of total employment.

Table One: Employment in Financial Sector

YEAR	JOBS IN FINANCIA INTERMEDIATION	JOBS IN NIGERIAN ECONOMY	PROPROTION
2003	270,000	46,800,000	0.00576
2004	275,854	48,124,440	0.00573
2005	280,948	49,486,362	0.00576
2006	288,899	50,888,826	0.00566
2007	297,074	52,327,514	0.00567

Source: National Bureau of Statistics 2008

From the standpoint of job creation *within* the industry, there were probably little noticeable difference between the pre-and post-consolidation periods. If anything, there was a slight fall in the proportion of people employed in financial intermediation following the consolidation. From a worker's prospective, this period (2005-2007) was the golden years of consolidation, for it was the period when banks retained branches and most staff of the banks they merged with. Later, restructuring and staff rationalization induced by financial crises led to closure of some branches which though licensed by CBN and operated as viable by the licensees were subsequently deemed unviable. For the troubled consolidated banks which incurred CBN intervention such closures were even demanded by the apex bank.

Between 2003 and 2007 employment grew in the national economy at an average rate of 2.83% and in financial intermediation sector at 2.5%. Within this period then, the financial sector, notwithstanding the huge resources compulsorily gathered therein by way of consolidation, exhibited the same sluggish job growth as did the national economy. The sluggishness becomes more poignant when job growth rate is juxtaposed with unemployment and population growth rates as shown in table2.

Table Two: Employment Growth in Context

YEAR	Unemployment Growth %	Employment Growth %	Population Unemployed %	Portion of 15-44 yrs %

2004	11.8	2.83	3.82	94
2005	11.9	2.83	3.82	91.4
2006	14.6	2.83	3.82	91.3
2007	10.9	2.83	3.82	91.3

Source: National Bureau of Statistic 2008

The grim un-employment picture painted by table 2 suggests far reaching effects on economic growth, productivity, social cohesion and stability, especially the point that beyond 90% of all unemployed workers were in their prime (15-45) age bracket. It also suggests that the peace supposedly existing in Nigeria could only have been secured by force. Also, that what has been experienced so far by way of crime in which people of the 15-45 age bracket have been mostly implicated, is only a tip of a time bomb which may be expected to explode any time. Therefore urgent and drastic intervention measures are policy imperatives.

(b) Frist Bank Performance

How has employment grown in post consolidation banking flagship, FBN PLC? Table 3 tells the story.

Table Three: Employment Growth-FBN Plc

Year	**Number of Staff**	**Staff**	**Growth Rate**
2006	7053		
2007	7399	346	4.9
2008	8495	96	1.3
2009	8203	-292	
	-3.4		

Sources: FBN PLC Annual Reports Various Years

What can be responsible for this declining post consolidation growth of employment in First Bank? Is it declining business performance or looses? A precautionary move or deliberate policy?

In table 4, we look at profit before tax which may be regarded as appropriate index of business performance in the relevant post consolidation years.

Table Four: Profit before Tax Fbn Plc

Year	Profit In Nm	Increase (Nm)	Growth %
2006	19831	4686	30.9
2007	22097	2266	11.4
2008	38020	15923	72.1

2009	46110	8090	21.3

Source: FBN Plc Annual Report-Various years

From table 4 we may conclude that performance has been reasonably good. Can we then justifiably attribute the declining employment growth to profitability/business volume or business performance in general? There seems to be no basis for such. The seeming ups and downs in profit growth are not due to volatile business performance but to policy issues and can be easily explained. For example, an exceptional income of over N3 billion in 2006 from part disposal of shares in Vee Networks Nigeria limited (then known as Celtel) depressed the 2007 profit growth rate which otherwise would have been in the order of 37%

Apart from expansion in transactions volume in existing branches and introduction of new products, a major source of manpower demand is opening of new retail outlets. Table 5 examines branch network development in the relevant years.

Table Five: Branch Expansion- FBN Plc

Year	Number of Branches	New Branches	Growth Rate%
2006	394		
2007	408	14	3.5
2008	453	45	11.0
2009	510	57	12.6

Source: FBN Annual Report-various years

Table 5 shows an improving rate of new branch development from which the success story that the First Bank brand has been, is sold to the public.

It is evident from our inquiry thus far that notwithstanding the global economic crises, much room for physical and transactional expansion was open for Nigerian banks, especially a bank such as First Bank which, not implicated in the banking crises in Nigeria, became one of the most sought after banks by the desperate and fearful Nigerian banking public. Business slow down, low profitability and such reasons do not seem relevant in an attempt to explain the declining employment growth. We must look else where for the poor performance in employment.

While addressing shareholders in 2007 the Managing Director of the bank made a curious statement. Said he:

> *Staff acquisition, retention and advancement policies remain firmly anchored on a continuing commitment to improving our "community welfare". At the heart of this policy is the concern to better our staff, as drivers, both of higher levels of productivity, and of inclusiveness at every local level, where we maintain a business presence.* (FBN, 2007).

When translated this means: the bank remains ever committed to payment of efficiency wages! It is clear that with the fulfillment of the kind of promises made by the Director, efficiency wages will be at their utmost and drive employment down to its depth. We take a look at staff emolument over the relevant period to see how the promises translate into practice.

Table 6: Staff Employment: FBN Plc

Year	**Staff Emolument**	**Growth**	**Per Staff**
	N M	%	Nm
2006	14679		
2007	18461	25.76	2.495
2008	31305	69.57	3.685
2009	43841	40.04	5.345

Source: FBN Annual Report - Various Years.

In keeping with the Director's promise, staff emolument as we see in Table 6 has maintained a most healthy growth. Employees have keyed into larger shares of current results. While it is true that the average earning per staff is a mere figure indicative of no one's earning, it is nevertheless noteworthy that this has maintained a steady rise over the years and in 2009 the average FBN staff earned an annual income of N5.3 million, up from N2.1 million soon after consolidation, an increase of over 150%.

What can we discern from staff/outlet ratios? This may also indicate the direction of policy. Table 7 shows this. 30 outlets representing 29 business development offices and head office were added to outlets from 2006. The result shows a trim and trimming staff/outlet ratios.

Table 7: Staff/Outlet Ratios

Year	Number of Staff	Number of Outlets	Staff /Outlet Ratio
2006	7053	424	17
2007	7399	438	17
2008	8495	488	17
2009	8203	540	15

Source: FBN Annual Report – various Years.

5. Empirical Analysis

We seek to establish the relationship between growth in employment and operating performance, specifically growth in earnings. This relationship should reflect underlying industry employment

pattern and should hint at labour practice distortion, if any. Both variables are deemed to emanate from the same population: organizational operations focused on value maximization and sectoral leadership. A positive and high correlation is expected because labour is a critical factor of production, and banking being a service industry, the high performance growth of the caliber exhibited by First Bank is expected to be strongly influenced by, and should itself strongly condition, employment growth. We define the Null hypothesis as follows:

H_0; the population value of the Pearson correlation coefficient is zero.

For the period 2003 to 2009 (inclusive) we take data from various annual reports of FBN plc. Sample correlation coefficient, r = 0.12 (Appendix 4). At n = 7, r becomes the test statistic. We compare this with Pearson correlation coefficient distribution.

We cannot reject the null hypothesis at 0.05 and 0.01 levels of significance. A mere 1.5% of total variation (r^2) in one variable may be explained by its linear relationship with the other. This is quite low. However the sample size is also small.

On account of this we switch to the relationship of the rank between employment growth and growth in performance. Null hypothesis becomes

H_o: the population value of the Rank correlation coefficient is zero.

Intuitively we expect a strong and positive relationship for a highly visible, publicly quoted company such as is First Bank. As growth and expansion proceed, ranks of staff employment and gross earnings in subsequent years are expected to be superior to previous years in both variables, leading to the expected high positive correlation. However, Rank correlation coefficient for our sample, r = - 0.257 (Appendix 3). We compare this with Spearman's rank correlation coefficient distribution and cannot reject the null hypothesis at 0.01 and 0.05 levels of significance. This is a counter intuitive outcome.

6. Conclusion

Our results show that we cannot reject the proposition that there is no relationship between employment growth and operating performance. This anomaly may be accounted for by industry employment policy, which policy appears anchored on the payment of efficiency wages. Theory already suggests that this practice inhibits employment growth. Employment growth itself is seen to be quite poor.

In a developing economy situation, and in particular, in a country such as Nigeria plagued for decades by unemployment and deepening poverty, such labour policy deserves to be changed. Labour intensive (or at the worst, neutral factor-intensity) growth path, keenly competitive operating environment and moral suasion are recommended.

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Appendix 1

FBN PLC – STAFF STRENGTH & GROSS EARNINGS		
YEAR	NO OF STAFF	GROSS EARNINGS (N million)
2003	6430	45 055
2004	6906	45121
2005	6698	49475
2006	7053	61243
2007	7399	79299
2008	8495	130600
2009	8203	185000

Source: FBN Plc Annual Report Account – Various Years

Appendix 2

GROWTH TREND

YEAR	CHANGE IN STAFF STRENGTH (X) RANK		CHANGE IN GROSS EARNING ₦million (Y)	RANK
2004	476	2	66	6
2005	-208	5	4354	5
2006	355	3	11768	4
2007	346	4	18056	3
2008	1096	1	51301	2
2009	-292	6	54400	1

Source : FBN PLC Annual Account – Various Years

Appendix 3

RANK CORRELATION TABLE				
YEAR	STAFF (X)	EARNING (Y)	Difference d	Squared difference d^2
2004	2	6	-4	16
2005	5	5	0	0
2006	3	4	-1	1
2007	4	3	1	1
2008	1	2	-1	1
2009	6	1	5	25

$\sum d^2 = 44$

Rank Correlation Coefficient = $1 - \frac{6\sum d^2}{n(n^2-1)}$

$= 1 - \frac{6*44}{6*35} = 1 - 1.257$

$= -0.257$

Appendix 4

PEARSON CORRRELATION TABLE				
X	R	XY	X^2	Y^2
476	66	31416	226100	4356
-208	4354	-905632	459264	18957316
355	11768	4177640	126025	138485824
346	18056	6247376	119716	326019136
1096	51301	56225896	1201216	2631792601
-292	54400	-15884800	85264	2959360000
1773	139945	49891896	2217585	6074619233

$$r = \frac{n\sum xy - \sum x\sum y}{\sqrt{(n\sum x^2 - (\sum x^2))\,(n\sum y^2 - (\sum y)^2)}}$$

$$= \frac{(6x49891896) - (1773 \text{ x } 139945)}{\sqrt{((6x2217585) - (1773)^2)}\quad\sqrt{(6x6074619233 - (139945)^2)}}$$

$r = 0.1238$

$r^2 = 0.0153$