

## **Impact of Retrenchment on the Retrenched Individuals: A Case of the Banking Sector in Zimbabwe**

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**Abstract:** The present study sought to establish the effects of retrenchment on the retrenched individuals by Zimbabwean banks that have taken place since 2004. The retrenchment exercise has affected over 2000 employees and was the biggest that Zimbabwean banks have undertaken. A qualitative methodology was utilised in conducting the study. The researcher conducted in-depth interviews with the ten (10) purposively selected retrenches. The study revealed among other things that to a large extent, retrenches had been negatively affected by the retrenchment exercise due to the banks' failure to pay the former workers their severance or retrenchment packages. The study also revealed that most of the retrenches had acquired colossal debts over the years and that all the money they had received in the initial payments had been used to pay off those acquired debts. The study recommends that banks that wish to retrench should first consider voluntary redundancy or early retirement and where compulsory retrenchment is effected, this should be done after considering an employee's skills, qualifications, work performance, disciplinary records as well as age.

**Keywords:** Impact, retrenchment, banking sector, individuals, retrenches, package.

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### **INTRODUCTION**

More than 2000 employees have been fired from the banking sector since 2009 with 130 sacked using the recent Supreme Court ruling [1]. Zimbabwe Banks and Allied Workers Union (ZIBAWU) secretary general Peter Mutasa said 1930 employees had lost their jobs to the terminations adding that the sector is now employing just 4323 non-managerial employees from over 6500. Retrenchment at work occurs when an employee's employment is terminated through no fault of his / her own [2]. Retrenchment can occur due to several reasons which include the need for an organisation's decision to restructure, relocation of business, a lack of demand for products or services, mergers or takeovers may also result in jobs being lost [3]. Several changes such as the structure of the markets (tariffs or exchange rates) can also affect redundancy and retrenchment [2].

Not surprisingly, as [4] postulates, retrenchment can have a negative impact on those affected. This ranges from their futures and as well as experiencing low self-esteem [4]. In Zimbabwe, banks that have retrenched employees include BancABC, Steward Bank, Metbank, Stanbic Bank, Reserve Bank of Zimbabwe and Barclays Bank of Zimbabwe. The banking sector went through various forms of restricting in the last three years with a high number of employees affected by retrenchments and bank closures [5]. The banking sector survived mainly on confidence and good

will and these terminations may lead customers to doubt the stability of banks. This may lead to deposit flights as customers will not be certain about the security of their investments [5]. Besides, as Mutasa [1] adds, the generality of the population regards these rounds of terminations as heartless and involved banks may be judged negatively in the court of public opinion well after the dust has settled. It is on account of the discussion above that this research set out to establish the impact of this retrenchment activity on the lives of the affected individuals.

### **LITERATURE REVIEW**

#### **What is retrenchment**

Retrenchment is seen by Mathis and Jackson [6] as downsizing, rightsizing and reduction in force (RIF) which they define as the cutting down on the number of employees within an organisation with focus being on trimming underperforming units or employees as part of a plan that is based on sound organisational strategies. Kanaparo [3] concurs with the above assertion [4] by saying that it refers to the planned reduction of a workforce by involuntary means where retrenchment is interpreted as the termination of the services of a worker by the employer for any reason whatsoever, otherwise than as punishment inflicted by way of disciplinary action. On the other hand Llyod [7] states that retrenchment means the terminations of employment where the employees' services are no longer required for economic or business reasons such

as the need to for cost cutting, restructuring, the sale or purchase of business operations or the reorganisation of business due to a merger or takeover.

### **Legal framework for Retrenchment**

The International Finance Corporation [8] notes that, 'retrenchment will have a substantial impact on the workers involved,' and as such the retrenchment exercise should be based on 'clear grounds that employees and their representatives can understand and contribute towards'. Different countries have different legislation that deal with retrenchment, for example, the Labour Act Chapter 28:01 of 2005 and the Labour Relations (Retrenchment) Regulations of 2003 in Zimbabwe or the Worker Adjustment and Retraining Notification (WARN) Act in the United States of America, to name but a few. An organisation that wishes to retrench, therefore, should comply with the statutes governing the exercise in the country in which they operate in order to do things right while at the same time minimising legal risk that may arise because of the exercise. For instance, a retrenching organisation may be sued for discrimination or unfairness if the rationale for the retrenchment is not really explained or justified. Thus there is need for good communication between the organisation, employees and their representative as well as other stakeholders before, during and after the retrenchment exercise to ensure transparency [8]. There is also need for clear rules and boundaries to avoid manipulation by those affected by the retrenchment exercise as noted by Machingambi [9].

Before an organisation begins the retrenchment exercise it should prove beyond reasonable doubt that it really is necessary for it to do so and to seek alternatives to job losses, for example freezes on new recruitments, enforcing retirement ages, reduction in hours worked by employees or reduction in salaries and ending the use of contract workers among other options [10]. The retrenchment exercise also needs to be based on acquisition of the relevant facts as well as the legal and economic, even political, context in which the organisation is operating. Thus, there is need for companies to gather information on issues like workers' rights and employer obligations in respect to the retrenchment process. The process of gathering information may involve consultations with key stakeholders, the workers and their representatives as well as government agencies, for example the Ministry of Labour in respect of Zimbabwe [8].

During the consultations it is imperative for all parties to agree on the retrenchment procedure with particular reference to the numbers of employees to be affected as well as having detailed plans on the implementation including the timeframe for each stage of the process. Stakeholders should also agree to the criteria for selection of retrenches, the mechanism for

making appeal if such need arises and above all the financial budget for each course of action, including the proposed severance package [8]. Lloyd [7] however noted that in Zimbabwe, agreements made between the workers representatives and the employer are not necessarily binding to the employees involved since the workers need to give prior consent to be bound by the workers' representatives. Therefore, the workers' representatives must 'try and obtain the employees' agreement to their decision. The WARN Act in United States of America requires that any organisation wishing to retrench should give a 60 day notice of such intent before effecting the process to more than 50 people [6].

In Zimbabwe, if an organisation wishes to retrench five or more employees within six months, it must notify the workers' representatives of its intention, or the Employment Council for the industry in which it operates [9]. This notification is a prelude to dialogue between the employer and the employees, which can be done through the representatives or directly with affected employees [11]. According to Lloyd [7], there is no laid down legal formula for retrenchment packages as there is for example in the UK. Therefore, different organisations and their employees negotiate according to the organisation's ability to pay. On top of the severance package, the employee is entitled to normal terminal benefits applicable to the employees to be retrenched which include leave pay, notice pay and other accrued benefits [11].

### **Impact of Retrenchment**

Retrenchments can have positive and negative effects on both the employer and the employees, either those retrenched or those that survive the exercise. Bernadin [10] notes that, 'the degree to which overall outcomes, are positive or negative, depends upon organisational measures taken to execute the downsizing efforts.

#### **Employer Positive**

While retrenching does not generate additional revenue, it is important to note that some firms have been able to lower their costs considerably on the short term. Bernadin [10] argues that there may be increased and improved work performance by the surviving employees as a result of what he terms 'heightened awareness of performance' as well as increased individual effort as employees feel the need to work more following the relief of surviving the job cuts.

#### **Negative**

An organisation may have to spend more by hiring consultants especially when people with the desired skills would have voluntarily left their jobs and the firm cannot engage any replacements. There may

also be need to invest in training those that remain on the job to cover for those that have left. On the other hand, motivation and morale of the remaining employees may be damaged, which can affect their productivity as they may not be clear on what their future within the organisation holds for them. In fact, Mathis and Jackson [6] argue that the surviving employees may experience guilt, 'because they were spared while their friends were not', to the extent that they may experience bitterness, anger, shock which can adversely affect their work performance. For those implementing the retrenchment exercise, for example, Human Resource professionals, the process may be stressful for them which may consequently affect their efficiency. Rama Rao [12] writes,

Researchers collected data from 410 managers who either had or had not been in the position of having to inform subordinates about expected mass layoffs. None of the managers were layoff targets. The researchers found that the more managers were personally responsible for handing out warning notices to employees, regardless of their age, gender and marital status, the more likely they were to report physical health problems to seek treatment for these problems and to complain of disturbed sleep.

### **Employees**

The effect of letting someone go can be devastating to the individual and the society in general, where an employee's financial security is jeopardised as well as losing the personal sense of worth, while at the same time it can lead to wider unemployment throughout the local economy [7].

Retrenchment brings uncertainty because one does not know for how long one will be unemployed and in Zimbabwe the exercise has led to serious unemployment problems as noted by Carr [13]. If not managed correctly, retrenchment could result in depression as a retrenchee 'faces the prospect of being separated from meaningful work, co-workers and the worst possible financial scenario ---lack of steady income. Gribble and Miller [14] observe that the effect of retrenchment on retrenches has been well documented and can include stigma, loss of identity and self-worth, grief, destruction of existing habits and loss of social and support networks. Self-confidence is said to be lost due to a loss of social support systems that can occur when a person is retrenched. By acting in a social context, humans are able to constitute what defines themselves through their actions; therefore, the loss of social interaction through retrenchment is a critical issue influencing self-esteem as noted by Gribble and Miller [14]. Retrenches may also experience anger, financial distress or feel that the

experience was positive. Additionally, literature also documents the experiences of the retrenched person outlining a plethora of grief reactions to job loss and the subsequent approach to looking for new work.

### **Retrenchment Mitigation**

Bernadin [10] recommends that an organisation can initiate 'outplacement programs' to assist retrenches in making a dignified transition to their new state of employment. Gribble and Miller [14] note that outplacement services who had long tenure with organisations, often of more than twenty years in the retrenching organisations. Outplacement also called 'career transition' is known as a process to assist retrenched workers to find a new job. These programs may include individual counselling on their social well-being after retrenchment as well as financial counselling. Retrenches may also be given training on how to become successful job seekers by teaching them to identify their skills and abilities, as well as developing marketable curriculum vitas. Outplacement programs may also include offering advice to retrenches on how to deal with anger, depression, stress, grief or loss of self-esteem associated with job loss. Some retrenching organisations usually retain outplacement provides to provide retrenches with assistance after that have physically left the organisation.

While outplacement may provide any or all of the above components, skills assessment, development of job search skills, assistance with networking and the provision of support services are considered to be the critical and major components in an outplacement program as noted by Gribble and Miller [14]. Programs offered by outplacement providers may be as short as a day or be open ended until the retrenchee finds new employment. For those who are provided open ended outplacement the assistance may go beyond reemployment and provide assistance to help them settle into their new job. The length of program is determined by the former employing organisation and based upon recommendations by outplacement providers who are guided by the position the retrenchee held.

### **Statement of the problem**

The massive retrenchments in the banking sector in Zimbabwe has resulted in a number of people who were hitherto gainfully employed losing their jobs and subsequently their incomes. Some if not most of these former workers were not prepared both financially and psychological for the new life by their employers. This study therefore sought to empirically establish how the retrenches were affected by this phenomenon (retrenchment).

**Research questions**

1. What procedures are used by the banks to select employees for retrenchment?
2. Were proper legal procedures followed when dealing with retrenchment of bank employees?
3. How are retrenches affected by retrenchment?
4. To what extent are retrenches mitigating the effects of retrenchment?

**Significance of the study**

The importance of this study stems from the fact that it exposes the lived experience of the retrenches and provides the reality they live in after retrenchment. This information should help banks plan for future retrenchments. This study also hopes to conscientise policymakers and government so that they protect employees from unscrupulous retrenchment through positive policies. The study also sought to add to the body of knowledge existing on the subject of retrenchment management process in Zimbabwe’s banking sector.

**Limitations of the study**

The study was limited to the perceptions of retrenches from the banking sector using a very small sample. The study was thus no more than a snap shot of feelings of retrenches about their experiences after losing their jobs. Clearly, the findings cannot be generalised but they alert one to the actual experiences of retrenches after losing their jobs. It also has to be pointed out that the perceptions about an issue are essentially subjective and cannot be measured accurately. Moreover, since feelings may vary in intensity, what might be interpreted positively by one individual may be interpreted differently by another. In other words, attitudes have no universally recognised and accepted scales of measurement and measures used in this study cannot be considered to be absolutely accurate. The interview also posed a number of challenges including the lack of confidentiality in its use.

**RESEARCH METHODOLOGY**

The study adopted a qualitative methodology and used purposive sampling to select the participants. The methodology was selected because it afforded the retrenchees the opportunity to live their experiences in their daily lives. Purposive sampling was used to select a sample of 10 retrenchees. Purposive sampling was chosen because as Anderson [15] observes, its advantage is that the researcher can use his / her research skill and prior knowledge to choose participants. In the interests of this study, the participants were assumed to be information rich such that they would be ready to provide research sought data. Data were gathered by means of semi-structured interviews lasting an hour using an interview guide. All interviews were audio taped and transcribed and

became the primary data source for analysis conducted by the researcher [16]. The aim was to understand experiences from the participants’ point of view Babbie, 2012. No attempt was made to generalise the findings or prove hypotheses, since the study was a form of naturalistic inquiry.

**RESULTS AND DISCUSSION**

The study sought to investigate the impact of retrenchment on retrenched individuals by the banking sector in Zimbabwe. This section is presented in two parts; namely biographical data and actual findings.

**Table 1: Distribution of participants by sex (N=10)**

Sex	Frequency	Percentage
Male	6	60
Female	4	40
<b>Total</b>	<b>10</b>	<b>100</b>

As table 1 above reveals, 60% of the respondents were male and 40% female. The datum was considered statistically significant to the extent that it revealed that an almost equal number of the sexes are affected by retrenchment. Both males and females may be equally affected by retrenchment since they may be both breadwinners. In the past breadwinners were associated with males, but nowadays many women exist in single parent households where they are heads of these families due to a number of reasons.

**Table 2: Distribution of participants by age (N=10)**

Age in years	Frequency	Percentage
30 and below	3	30
31 – 40	5	50
41 – 50	2	20
51 – 60	0	0
60 and above	0	0
<b>Total</b>	<b>10</b>	<b>100</b>

All the participants were below fifty years of age. This was a result of the purposive sampling that was used to select the participants and more importantly, that the bulk of those retrenched fell in the below fifty (50) age group. The significance of this data is that it reveals that retrenchees are largely people who are relatively young and may have young children to look after.

**Table 3: Distribution of participants by level of education (N=10)**

Level of qualification	Frequency	Percentage
Ordinary Level (‘O’ Level)	1	10
Advanced Level (‘A’ Level)	3	30
University Graduates	6	60
<b>Total</b>	<b>10</b>	<b>100</b>



Most of the participants (60%) were holders of university qualifications. This implies that the retrenchees are well educated in a normal economic situation they could get employed elsewhere, yet in a situation as is obtaining in Zimbabwe, they have joined a number of educated unemployed surviving on vending.

### **Actual Research Findings**

#### **Criteria used in the selection of retrenchees**

The study revealed that the criteria used to select employees for retrenchment were not based on any specific skills; but rather on whether a department was still required to exist within the structure of the bank or whether the departments were said to be oversubscribed. The aspect of one's qualifications was also not a factor that was used to select employees for retrenchment. Participants stated that the selection process was not transparent and they even suggested that there was a lot of favouritism since some workers who were related to top managers and yet belonged to overstuffed units / departments were not affected under mysterious circumstances. The selection criteria utilised is discordant or incongruous with specifications by bodies like the International Finance Corporation [8] which stipulates that selection criteria should be objective and non-discriminatory when deciding who is to be made redundant and where possible non-compulsory selection criterion is the best. As Lloyd [7] posits, where compulsory selection criteria is used this should include proper consideration of an employee's proficiency through skills and qualifications, standard of work performance, as well as attendance or disciplinary records. Thus, as Chavizha [4]) postulates, it may be necessary and appropriate to retain an employee with less experience, where they possess specialised skills, knowledge and abilities.

#### **Were legal procedures adhered to before retrenching?**

The banks were not following laid down procedures for retrenching employees. For example, the Labour Act [11] provides guidelines for retrenching employees. Section 12C (1) of the Labour Act [11] stipulates that the negotiations between an organisation and its employees should be, done with Works Council or the employees' representatives, where the organisation gives full details of the employees that they wish to retrench. An employer has to agree with its employees with regards to the severance packages, and yet the participants indicated that they thought they were short changed as what they got was far below what they invested in their various banks. This tallies with observations by the International Finance Corporation [8] which states that stakeholders should agree to the criteria for selection of retrenchees, the mechanism for making appeal if such need arises and

above all, the financial budget for each course of action, including the proposed severance packages.

#### **Impact of retrenchment on retrenchees**

Most of the retrenchees in the study were shocked by the experience of retrenchment since they had least expected to be retrenched. They indicated that they were working in jobs they were happy in and believed they were doing a good job and when suddenly they were informed to leave, this immensely affected their self-esteem and they were thoroughly overwhelmed by the issue. It affected them in many negative ways in that they lost not just their regular full salary, but also lost other non-pecuniary benefits like accommodation provided by the employer, education and health facilities they enjoyed from being employees of the banks. Socially, they were affected in that their statuses suddenly nosedived from relatively respectable classes to ordinary people. Due to loss of a steady income, this meant that they were unable to honour their responsibilities and this resulted in them being stigmatised by their relatives and others within their communities. This information is corroborated by observations. This information is corroborated by observations by Gribble and Miller [14] who argue that the effect of retrenchment on retrenchees can include stigma, loss of identity and self-worth, grief, destruction of existing habits and loss of social and support networks. Retrenchees may also experience anger, financial distress or feel that the world has abandoned them.

#### **CONCLUSIONS**

The study has shown that the retrenchment exercises conducted by banks in Zimbabwe were not properly effectuated as they did not follow the proper procedures. The retrenchees were not properly selected as there were allegations of favouritism and nepotism in conducting the exercises. The packages that retrenchees received fell short of their expectations and there is very little they could do to challenge these packages.

#### **RECOMMENDATIONS**

In light of the above findings and conclusions, the study puts forward some recommendations:

- Organisations, especially banks should communicate transparently and exhaustively with their employees before they arbitrarily retrench workers as this causes unnecessary frustrations and suffering on the part of the employees.
- There is need to comply with legal provisions governing the retrenchment of employees in order to do the right things and also to avoid litigations by dissatisfied employees.
- Employees retrenching workers should treat the affected employees with dignity and respect. This

can be done by having a longer retrenchment notice period for all the affected employees; paying all salaries including unused annual leave, notice pay on their last day of work and by helping affected employees look for alternative jobs in associate companies, other companies or through outplacement assistance programmes like job fairs, career advice.

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