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Strategic Human Resources Management practices in the Post Consolidated Nigerian commercial banks

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Abstract
One of the major issues that require attention in the recent banking sector reform in Nigeria is the human resources management of the newly consolidated banks. Current researches show that Human resources management (HRM) practices are importance for enhanced corporate performance. However, little has been reported on the effect of HRM and corporate performance in the post consolidation era of the Nigerian banking industry. Drawing on the extensive body of research on strategic human resource management (SHRM), this paper examines the effects of SHRM practices on banks performance during significant post consolidation era in a developing economy like Nigeria. This study tries to understand the role of innovative HRM practices and specifically questions how HRM practices, such as the role of HR department, recruitment, retraining and redeployment, performance appraisal and compensation, enhance corporate performance during the post consolidation era. A multiple-respondent survey of 150 staff of the selected consolidated banks in Nigeria was undertaken to study the impact of innovative HRM practices on banks performance. The data collected from structured questionnaire was analysed using descriptive statistics and hypotheses tested using Mean Score. The survey found that the innovative recruitment and compensation practices were ranked higher at influencing banks performance. It was observed that recruitment, the role of the HR department and compensation practices seem to be significantly changing within the Nigerian banks in the context of Consolidation.
Keywords: Innovative HRM; Consolidation; post consolidation era; Nigerian banks; consolidated banks; performance

Introduction

The imposition by regulators of minimum capital standards on financial institution was one important development in the 20th century. Most banks regulators see capital adequacy regulation as a means of strengthening the safety and soundness of the banking industry. The resolve of the central bank of Nigeria to place the banking system in a regional and international context and promote soundness, stability and enhanced efficiency of the system was the major reason behind the increased minimum base for all universal banks to N25billion effective from December 31 2005. This invariably prompted a regulatory induced restructuring in the form of consolidation through merger and acquisitions.

The reforms, essentially entail the build – up of capital, size and business scale of the banking institution, at the end at which smaller number of, but which stronger institutions emerged (Ogunleye 2005, Oluyemi 2006, Balogun 2007, Emeni and Okafor 2008) .Caveats to these ensued with the problem of large and complex system created by the reforms such that the issue of whether they guided the anticipated results is debatable (Balogun 2007). The Nigeria banking reforms is a product of global effort at revamping the world economy (Emeri and okafor 2008). According to Emeria and Okafor (2008) for a long term in the history of policy reforms in Nigeria the banking sectors was given priority attention such that directive by means of regulation were issued to the banking sector with the aim of development other sector and thus propelling the entire economy.

The policy initiative has definitely posed some problems and challenges to both the banking system and economy. One major issue that require attention is the human resources management in the newly consolidated banks. For instance Okafor (2009) observed that in achieving the objective of bank consolidation, quite a number of risk factors were involved both during and after consolidation which have implications for industrial relations in the banking sector. The human risk factors included; downplaying of employees welfare in merger and acquisition, dealing with employee resistance to change under the new reality, loss of job commitment, redundancy, and employee turnover with concomitant loss of key talents, treating human capital as cost, imbalance pay setting and post merger fits (Adeyemi 2005; Omokhodion 2007; Alao 2010).

The increasing significance of people to organisational success has been observed to have corresponded with the rise of Strategic Human Resource Management (SHRM) as a field of study on a global scale (Hartel, *et al* (2007). In the last two decades researches have shown that the strategic human resource management (HRM) is likely to be one of the most important determinants of organizational performance as observed by Taylor and Francis (2008).Researchers have built evidence that links HRM practices with corporate performance. See for example (Truss 2001; Guest, Michie, Conway and Sheehan 2003; Paauwe 2004; Paauwe and Boselie 2005; Wright, Snell and Dyer 2005; Som, 2008). Outcomes of worldwide empirical research summarized in recent work of Boselie et al. (2005) and Katou, and Budhwar (2006) suggest that there are commonalities and also contradictions in HRM and performance research (Wright and Boswell 2002; Wall

and Wood 2005). Huselid's (1995) study of the relationship between HR practices and corporate performance serves probably as the seminal and definitely most-cited work in this area.

Katou and Budhwar (2006) in their study of 178 Greek manufacturing firms found support with the universalistic model and reported that HRM policies of recruitment, training, promotion, incentives, benefits, involvement and health and safety are positively related to organizational performance. Innovative HR practices have been linked to higher organizational performance, more dependent on the environment as averred in (Delery and Doty 1996). According to Som (2008), most of the work on HRM and performance has been undertaken in the US and recently in the last decade in UK and as such may not be suitable to explain the relationship in a developing economy like Nigeria. Testing this in the Nigerian context and most especially in the post consolidated commercial banks shall be the crux of this paper.

Statement of the problem

The banking sector reform in Nigeria, especially the recapitalisation policy initiative has definitely posed some problems and challenges to both the banking system and economy. One major of the issues arising from the reform that require attention is the human resources management in the newly consolidated banks. This research considers the impact of western strategic human resources management (SHRM) framework and provides empirical evidence (Som, 2008; Taylor & Francis 2008) from Nigeria. There is the need for study on the HRM impact on banks performance in the post consolidation era in Nigeria. The paper tries to identify whether certain innovative HRM practices have stronger significant effect than others and the significance of the identified innovative human resources practices on the post consolidated banks performance. To achieve this objective, the following research questions are expected to be answered:

- What are the major SHRM practices essential for banks performance?
- Are there relationship between Strategic Human Resources Management practices and performance of the post consolidated commercial banks?
- What are the bankers perceptions of Strategic Human Resources Management practices of post consolidated commercial banks?

Hypotheses

The following null hypothesis shall be tested to achieve the objective of this study:

$HO:_1$ There is no significant difference in the bankers perceptions of the impact of innovative HRM practices on the performance of the post consolidated banks.

HO_2: HRM practices adopted in the post consolidation era would not be significantly more innovative than those followed in the pre consolidation era.

Literature review

A number of authors have explored the links between individual HR practices and corporate financial performance. For example, Lam and White (1998) reported that firms' HR orientations (measured by the effective recruitment of employees, above average compensation, and extensive training and development) were related to return on assets, growth in sales, and growth in stock values. Using a sample of banks, Richard and Johnson (2001) examined the impact of strategic HRM effectiveness (ratings of how effectively a variety of HR practices were performed) on a number of performance variables. They found that strategic HRM effectiveness was directly related to employee turnover and the relationship between this measure and return on equity was stronger among banks with higher capital intensity (greater investments in branches). This is exemplified by Terpstra and Rozell's (1993) study of the relationship between recruiting/selection practices and firm performance, where they found a significant and positive link between extensiveness of recruiting, selection and the use of formal selection procedures and firm performance.

Green, Wu, Whitten and Medlin (2006) reported that organizations that vertically aligned and horizontally integrated HR function and practices performed better and produced more committed and satisfied HR function employees who exhibited improved individual and organizational performance. Human Resources (HR) have been described by Almamun (2009) as the energies, skills, talents and knowledge of people which are, or which potentially can be applied to the production of goods or rendering useful services. Human capital, intellectual capital and structural capital concept are similar to other assets. Research to examine the way in which human resource variables affect the efficiency of firms could be performed in a number of ways including analyzing the association between different aspects of human resources and firm performance (Boudreau & Ramstad, 1997; Grojer, 1998). Som, (2008) described HRM as carefully designed combinations of such practices geared towards improving organizational effectiveness and hence better performance outcomes. HRM is expected to respond accurately and effectively to the organization's environment and complements other organizational systems and contingencies (Boselie, Dietz and Boon 2005).

Numerous researchers outside Nigeria have built upon this foundation over the past few years to add to this literature, Harel and Tzafrir (1999) found that among public and private organizations within Israel, HR practices were related to perceived organizational and market performance. Lee and Chee (1996) found no relationship between HR practices and firm performance, where Bae and Lawler (2000) found a significant relationship between HR and firm performance in their sample of 138 Korean firms. Lee and Miller (1999) found some evidence on the relationship between HR practices and performance among their sample of Korean firms, but this relationship was most strongly pronounced among firms using dedicated positioning (marketing differentiation or innovative differentiation) strategies. Bae, Chen, Wan, Lawler and Walumba (2003) in their study of HR strategy in Pacific Rim countries found that in general, the effect of high-performance work systems worked effectively, though under tremendously variable conditions.

A considerable amount of interest has since gained ground on understanding the link between HRM and performance. For instance, with a relatively large questionnaire survey of 137 companies, Budhwar and Sparrow (1997) analysed the levels of integration of human resource management in the corporate strategy and devolvement of responsibility for HRM to line managers in India. Singh (2003) from his survey of 84 companies found a significant relationship between strategic HR orientation index and firm performance. Amba-Rao et al. (2000) in his empirical study compared performance appraisal practices and management values in India among foreign and domestic firms in India. They found that managers have to adapt selectively to firms depending on the basis of a firms ownership structure.

Paul and Anantharaman (2003) in their study of 35 Indian software companies determined, developed and tested a causal model linking HRM with organizational performance through an intervening process. They observed that no single HRM practice has direct causal connection with organizational financial performance, though HRM practices have an indirect influence on the operational and financial performance of the organization. In their comparative study of 137 large manufacturing firms Budhwar and Boyne (2004) differentiate the HR practices in public sector and private sector companies in India. Their findings suggest that against the established notion, the gap between the Indian private and public sector HRM practices (structure of HR department, role of HR in corporate change, recruitment and selection, pay and benefits, training and development, employee relations and key HRM strategies) is not very significant but in a few functional areas (compensation, training and development), private-sector firms have adopted a more rational approach than their public sector counterparts.

Banking Sector Reforms in Nigeria

To tackle the problems bedevilling the banking sector in Nigeria and restore depositors confidence in the sector, the Central Bank on July 6, 2004 mandated all 89 banks to recapitalize to the tune of N25 billion on or before the December 31, 2005. Most of twenty- five group banks which met this requirement within the stipulated time frame did so through merger and acquisition with varying implications and challenges for employees and their banks such as closure of weak and non–consolidation banks, job losses, poaching, intra wage disparity and employee low commitment to work in post-consolidated banks. The consolidation of banks has been the major policy instrument being adopted in correcting deficiencies in the financial sector. The economic rationale for domestic consolidation is indisputable. An early view of consolidation in banking was that it makes banking more cost efficient because larger banks can eliminate excess capacity in areas like data processing, personnel, marketing, or overlapping branch networks (Somoye, 2008).

Emeri and Okafor (2008) identified merger and acquisition as one of the instrument of recent banking reforms in Nigeria, using cross sectional survey research and ordinary least square regression analysis the result observed two effect of merger and acquisition as static effect and dynamic effect. The static effect resulted in positive relationship between small businesses lending and bank size because for each N1 deposit received about N0.33k was given out to small business. However, dynamic effect of merger and acquisition in the Nigerian banking sectors which was reported as restructuring, direct and external effect gave on opposite result. The restructuring and direct effect shows that bank size is negatively related to small business lending and also there is a negatively relationship between external loan by institution like microfinance institution and small business lending.

Zubairu (2006) identified human resources realignment, technology integration, stakeholders concern, monitoring and supervision problems as culminating from the consolidation of banks in Nigeria. Abati (2006) submitted that the biggest losers in the banking consolidation was the human element especially depositors in the liquidated banks and workers of the merged banks, observing conflicting conditions of service for workers within the same grade level in some emergent banks.

Somoye, (2008) analysed published audited accounts of twenty(20) out of twenty-five(25) banks that emerged from the consolidation exercise and data from the Central Banks of Nigeria(CBN). He denoted year 2004 as the pre-consolidation and 2005 and 2006 as post-consolidation periods for the purpose of the analysis. He noticed that the consolidation programme has not improved the overall performances of banks significantly and also has contributed marginally to the growth of the real sector for sustainable development. The paper concludes that banking sector is becoming competitive and market forces are creating an atmosphere where many banks simply cannot afford to have weak balance sheets and inadequate corporate governance. Somoye posits further that consolidation of banks may not necessarily be a sufficient tool for financial stability for sustainable development and this confirms Megginson(2005) and

Somoye(2006) postulations. He then recommends that bank consolidation in the financial market must be market driven to allow for efficient process.

Phase of banking sectors reforms

A review of development in the Nigeria banking sector indicate some remarkable changes over the years, in term of the number of institutions, ownership structure, as well as the scale of operation driven largely by deregulation of the financial sectors in line with the global trend (Ogunleye 2005). Four phase have of financial reforms have been identified in the literatures (see Balogun 2007, ogunleye 2005 for review). The first is the financial system reforms of 1986 to 1993 which lead to the deregulation of the banking industry that hitherto was dominated by indigenized bank that had over sixty percent federal and state government stakes in addition to credit interest rate and foreign exchange policy reforms.The second phase began in the late 1993-1998 with reintroduction of regulation. During this regime the banking sectors suffered deep. Financial distress which called for another round of reform designed to manage the distress. The third phase began with the advent of civilian democracy in 1999 which saw the return ton liberalization of the financial sector accompanied with the adoption of distress resolution programmers. This era also saw the introduction of universal banking which empowered the bank to operate in all aspect of retail banking and nonbanks financial market.

The fourth phase usually regarded as consolidation phase began in 2004 to date and it is informed by the Nigeria monetary authorities who asserted that financial system was characterized by structural and operational weaknesses and that their catalytic role in promoting private sector driven growth could be further enhanced through a more pragmatic reforms. According to Ogunleye (2005) the consolidation of the banking forms as follow up to the recommendation policy involves either a combination of exiting banks or exit from the weak bank. The consolidation take the form of merger and acquisition which became necessary because of the fundamental problem in the industry which includes among other significant asset quality problem, under capitalization of a number of industry players ,significant corporate governance issues, delay in or non publication of annual account, inadequate risk management practice ,over dependence on public sectors deposit and neglect of small and medium scale enterprises by the system.

The reason for consolidation

The inability of the Nigeria banking system to voluntarily embark on consolidation in line with global trend has necessitated the need to consider the adoption of appropriate legal and supervisory framework as well as a comprehensive incentive package to facilitate to consolidation in the banking industry, both as a crisis resolution option and to promote soundness, stability and efficiency of the system by the apex regulatory body of the banks in Nigeria (Soludo, 2004:4). The major objective of the banking system is to ensure price stability and facilitate rapid economic development. Regrettably, these objectives have remained largely unattained in Nigeria as a result of some deficiencies which include inter technological drive; desire for growth. Also Imala (2005) observed poor rating of number of banks in a detailed analysis of the condition of individual banks, as at December, 2004 where no bank was rated very sound only 10 were adjudged sound 51 satisfactory, 61 marginal and 10 unsound.

Low capital Base was also part of the reason for the bamks consolidation as reported in the CBN (2005) that the average capital base of Nigeria banks is US$10milion, which is very low compare to that of banks in other developing countries like Malaysia where the capital base of the smallest bank is US$526million. Similarly the aggregate capitalisation if the Nigeria banking system at 311million naira (US$2.4million) is grossly low in relation to the size of the Nigeria economy and in relation to the capital base of US$688billion for a single banking group in France US$541billion for a bank in Germany (CBN 2005). Further to this salient point is the Stock Exchange Quotation. For instance Business combination could be motivated by the desire for stock exchange listing. In this case, a bank unable to meet the requirement of the stock exchange, but desirous of public quotation may integrate with another bank in order to realize its goal. Other reasons suggested for consolidation in banks are:

- Increased Market Share: Consolidation (Mergers and Acquisition) may be compelled by the desire banks that have similar line of product to enlarge its market share after the merger
- Weak corporate governance, evidence in inaccurate and non- compliance with regulatory requirement, declining ethics and gross insider abuse resulting in huge non-performing insider related credits.
- Over-dependence on public sector deposits and foreign exchange trading and neglect of small and medium scale private savers. (Imala; 2005:27).

Banking sector Reforms and key performance indices

The general performance of banks is reported to have been influenced by the various reforms from time immemorial. All the banks in Nigeria are strong according to Soludo (2008). This assertion is further buttressed by the CBN Report (2010) that the total assets of the banking sector rose by 55.37 percent to N 10.47 trillion in 2007 from N6.74 trillion in 2006, a significant rise demonstrating the effects of consolidation on the banking system of the country as larger consolidated banks both sought and lent out larger sums of funds (CBN banking supervision annual report for 2007). A review of Nigerian banks balance sheets showed that advances/leases constituted the largest component of total assets and reached N 3.80 trillion in 2007, an 83% jump from 2006 demonstrating significant

increase in bank lending activities. The major components of liabilities were deposits, and total liabilities increased in 2007, with total deposits, other liabilities, and paid up capital and reserves rising by 55.81%, 86.33% and 64.36%, respectively.

In terms of number of banks and minimum paid-up-capital, between 1952 and 1978, the banking sector recorded forty-five (45) banks with varying minimum paid-up capital for merchant and commercial banks. The number of banks increased to fifty-four (54) between 1979 and 1987. The number of banks rose to one hundred and twelve (112) between 1988 and 1996 with substantial varying increase in the minimum capital. The number of banks dropped to one hundred and ten(110) with another increase in minimum paid-up capital and finally dropped to twenty-five in 2006 with a big increase in minimum paid-up capital from N2billion(USD$0.0166billion) in January 2004, toN25billion(USD$0.2billion) in July 2004. As at September 2012, there are 20 banks in Nigeria with only 15 of them quoted in the Stock Exchange market (See Table I).

Table I: List of Quoted and Unquoted Banks sampled for the Study

Banks	Quoted/Unquoted	Sampled/Not sampled
1.Access Banks	Quoted	Sampled
2. City Bank	Unquoted	Not sampled
3. Diamond Bank	Quoted	Sampled
4. Eco Bank	Quoted	Sampled
5. Enterprise Bank	Unquoted	Not sampled
6. Fidelity Bank	Quoted	Sampled
7. First Bank	Quoted	Sampled
8. First City Monument Bank	Quoted	Sampled
9. Guarantee Trust Bank	Quoted	Sampled
10. Key stone Bank	Unquoted	Not sampled
11. Main street Bank	Unquoted	Not sampled
12. Skye Bank	Quoted	Sampled
13. Stambic Bank	Quoted	Sampled
14. Standard Chartered Bank	Unquoted	Not sampled
15. Sterling Bank	Quoted	Sampled
16.Union Bank	Quoted	Sampled
17. United Bank for Africa	Quoted	Sampled
18.Unity Bank	Quoted	Sampled
19.Wema Bank	Quoted	Sampled
20..Zenith Bank	Quoted	Sampled

Number of Quoted Banks = 15
Number of Not quoted Banks = 5
Total number of Banks = 20
Source: CBN 2012, Nigeria Daily News 2012

Index of perceived organizational performance

- Level of productivity, operating efficiency
- Growth rate of revenues/sales/level of activity
- Financial strength (liquidity/reserves, borrowing capacity, etc.)
- Market share
- Profitability
- Innovation (product, process, systems, managerial)

Methodology

The sample for the study was drawn from the 24 post consolidated banks in Nigeria as at November 2010. Primary data was used through structured questionnaire administered on 150 staff of the selected banks. The instrument was designed to ask for ratings on a Likert-type 5-point scale (5 for strongly agreed to 1 for strongly disagree). Following an extensive literature survey and taking into account the Som (2008) definition of innovative HRM practices, this study considered the role of HRM department, recruitment, retraining and redeployment, performance appraisal and compensation and reward practices as the most important variables. The questions were set to elicit information on the perceived influence of the identified innovative human resources management practices adopted by the post consolidated commercial banks in Nigeria on their performance. The 150 sample size is made up of 30 staff each from five of the 15 quoted banks as at September 2012. These banks are Union Bank, GT Bank, UBA, First Bank and Zenith Bank with their various branches in Lagos state the

commercial hub of Nigeria. Means Score was used to analyse the perception of the respondents on the questions while Z-Score statistics used was used to test the hypothesis. Means Score is completed as the average response per each variable and the perceptions with the highest Means Score rank first while others follow.

Mathematically, Z – Score Statistics is computed as: $\frac{\bar{x} - N}{Sd\ \bar{x}}$

Where $\bar{x}$ = Sample Mean
N = Population Mean
Sd $\bar{x}$ = Standard error of the mean calculated as standard deviation divided by root of sample size.

Results and Discussions

The study aimed at examining the relationship between innovative HRM practices during the post consolidation era and the performance of the Nigerian banking sector.

The analysis and hypotheses tested are hereby presented in the table below:

Test of Hypothes I

The following null hypothesis shall be tested to achieve the objective of this study:

HO_1: There is no significant difference in the bankers perceptions of the impact of innovative HRM practices on the performance of the post consolidated banks

Table II: Perceived influence of Innovative HRM practices on banks Performance

Statements	Mean	Rank
Innovative Recruitment Practices	3.77	1st
Innovative role of HRM Department	3.44	3rd
Innovative Retraining and Redeployment	3.36	4th
Innovative Performance Appraisal	3.30	5th
Innovative Compensation and Rewards	3.56	2nd

Source: Authors compilation 2012

Table III shows the mean scores of Perceived influence of Innovative HRM practices on banks performance and Innovative Compensation and Rewards ranked first and second with mean scores of 3.77 and 3.56 respectively. The innovative role of HRM department and innovative retraining and redeployment attain middle ranks of mean scores 3.44 and 3.36 respectively. However, innovative Performance Appraisal though perceived significant to banks performance was ranked last of the five Innovative HRM practices of influence on banks performance.

The results of this research imply that post consolidated Nigerian commercial banks are focusing on innovative recruitment and compensation practices to improve their performance. As many HRM studies have indicated, an HRM system as a whole, affects firm performance. Therefore, workers are not just a cost to be incurred; rather, as is maintained in the resource-based perspective, people and HRM are emerging as critical sources of competitive advantage for firms (Bae and Lawler 2000, Som 2008).

Test of Hypothesis II

HO_2: HRM practices adopted in the post consolidation era would not be significantly more innovative than those followed in the pre consolidation era.

TABLE II: SUMMARY OF THE RESULT

	X	N	SD	SDX	Zc	Zt	Remark
Q1	3.77	3.98	1.317	0.1075	1.96	1.96	Significant
Q2	3.44	3.65	1.325	0,108	1.96	1.96	Significant
Q3	3.56	3.83	1.669	0.136	1.96	1.96	Significant
Q4	3.30	3.58	1.761	0,143	1.96	1.96	Significant
Q5	3.36	3.63	1.709	0.139	1.96	1.96	Significant

Significance level: 0.05
Source: Authors findings 2012

Overall the results suggest that innovative HRM practices, including the role of the HR department, selectivity in staffing and incentive compensation, are positively related to perceptual measures of organizational performance. The role of HR is generally seen in ensuring that firms are able to attract, retain, motivate and develop human resources according to current and future requirements in line with the findings of (Som 2008).

Conclusion and Recommendations

The result of this study corroborates that the HRM department has become more proactive, fair, helpful, respected and acts as a coach and tries to benchmark with global excellent practices. In terms of practicing innovative recruitment practices, it seems that more recruitment is occurring for those who are professionally trained and qualified bankers. Finally, the role of HR department is not only responsible for the design and evaluation of employee management policy and practices, but in the changing banking sector of Nigeria it is also the one that has to implement the changes along with supervisors and frontline managers.

In the light of the above bankers are expected to adopt innovative HRM as an important strategic tool of coping with turbulence associated with the banking sector reforms in Nigeria.

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