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The Global Financial Crisis and the Role of Labour in the Nigerian Banking Sector

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The global financial crisis stems largely from the collapse of corporate governance. To arrest the trend, various reforms were instituted by the state through the injection of capital into banks and change of management. The ruling class will continue to institute one reform after another. The objective of the instituted reforms will not be realized and the finance sector will remain deformed until it is recognized that adequate capital could be rendered inadequate by inadequate management. The existence of a working class organization with the ability to constrain the ability of management to act arbitrarily and impairing of good corporate governance will be an enabler of this process. In reforming the Finance Sector, a working class organization with the ability to assert its institutional identity is imperative. The development of the human side of enterprise must also attract attention as adequate capital could be rendered inadequate by inadequate management.

Key Words: Banks, global financial crisis, corporate governance, management prerogative, trade unions, state intervention

Introduction

The global financial crisis is attributed largely to the failure of corporate governance. While codes for promoting good corporate governance existed, their workability were constrained by management through the instrumentality of management prerogative. Corporate governance will be reduced to position of inessentiality where the ability of management to act arbitrarily is not impaired by strong institutions. The achievement of good corporate governance is highly dependent on the existence of strong institutions like organized labour. Labour must therefore assert its institutional identity by challenging the ability of management to act arbitrarily. In averting future global financial crisis, the role of labour as an enabler of good corporate governance and attainment of adequate management are yet to be explored. This study will therefore examine the role of organized labour and adequate management as enabler of good corporate governance.

Research Objective

The objectives of this research are as follows:

i. To establish the extent to which management arbitrariness, exercised through management prerogative/discretion is responsible for the collapse of corporate governance.
ii. To establish the extent to which inadequate management contribute to corporate governance failure.
iii. To establish the extent to which labour is an enabler of the institution of adequate management and good corporate governance.

Research Questions

The crucial questions to be answered in this study are as follows:

i. Is management arbitrariness exercised through management prerogatives/discretion a constrain to the attainment of good corporate governance?
ii. Is inadequate management responsible for inadequate corporate governance?
iii. Is labour an enabler of adequate management and good corporate governance?

Methodology

The way research is conducted may be conceived in terms of its paradigm. According to Denzin and Lincohn (1994), paradigm is the basic set of beliefs that guide action that can be viewed as consisting of three main elements: Ontology, epistemology and methodology. As argued by Hughes (1990), every tool or procedure is inextricably embedded in commitments to a particular version of the world (ie.

Ontology). Ontology is the nature of reality which is immutable. Bryman (2001), identified objectivism and constructionism as the two main ontological approaches. Objectivism is an ontological position that implies that social phenomena confronts us as external facts that are beyond our reach of influence. Constructionism asserts that Social phenomena and their meanings are continually being accomplished by their social actors. There are several factors which affected the global financial crisis. As a result of my ontological position which is within the domain of constructionism, the focus of this research is only on the role of organized labour and adequate management in the attainment of good corporate governance (Jankowicz 2005). This approach stems largely from my experience and critical review of events in the finance sector of the economy.

Within the context of this research, epistemology will be demonstrated through my interaction with the subject of enquiry and context of study with a view to creating knowledge. Positivism and interpretivism are the two strands of epistemology. The difference between them is the way they approach knowledge. For positivists, scientific knowledge is established through the accumulation of verified facts. Science is thus, deductive and must be carried out in an objective way. In the positivism strand, the role of the researcher is primarily to test theories and create laws. Interpretivism on the other hand, sustains that social phenomena do not exist independently of our interpretation of them; rather it is this interpretation or meaning of social phenomena, which affects social reality (Marsh and Stocker 2002). While the positivists are external to the research process, the interpretivists in contrast take an insider position. They are part of the research process as the subject and object of research are interfaced. For the interpretivists, it is completely natural that the values of the researcher condition research findings because the findings are created through researcher's interaction with their objects (Christoe. Valachis and Anastasiadou, 2005). This study reflects the stance of interpretivism. As a result of my dual role as a researcher and an employee in the sector under study, I will play a part in the research process. It will be impossible for me to carry out this investigation without being involved. In order for me to understand the subjective meaning of the impact of organized labour and adequate management on good corporate governance, I will be immersed in the research context. Emphasis will be given to the utilization of qualitative data. Although interpretivism is weak on ground of subjectivity, Remenyi, Williams, Money and Swartz (1998:35) posits that the strongest argument of the interpretivist is the necessity to discover the details of the situation and understand the reality working behind them. The ontological and epistemological approach adopted by a researcher, has direct impact on methodological approach. As stated by (Christoe, Valachis and Anastasiadou, (2005), interpretevists are more liable in using action research. The adoption of action research in this study is therefore predicated on this premise. As Kemmis and McTaggart (1988) stated, "…….. to do action research is to plan, act observe and reflect more carefully, more systematically, and more rigorously than one usually does in everyday life, and to use the relationships between these moments in the process as a source of both improvement and knowledge". The source of primary data will be through observation. The secondary data for this research will be taken from journals, books, official compilations, periodicals and web-sites. I am not anticipating any problem with secondary data as they are easy to access. The main disadvantage of using secondary data is that it may not be appropriate to certain research questions and objectives. (Sauders, Lewis and Thornhill, 2005). This phenomenon is often a problem in research. As argued by Kervin (1999), secondary data that fail to provide you with the information that you need to answer your research questions or meet your objectives will results in invalid answers. In this study, the problem associated with the failure of aligning secondary data to research questions will be addressed through reliance on only secondary data that are directly relevant to this research (Jankowicz, 2005)

The Background Study of the Global Financial Crisis

The banking crisis which started in the United States of America (U.S.A) resulted in the collapse of large financial institutions globally. An increase in incentives such as easy initial terms and long-term trend of rising housing prices had encouraged borrowers to ensure difficult mortgages in the belief that they would be able to quickly refinance at more favourable terms. However once interest rates plummeted and housing prices started to drop, refinancing became more difficult. Defaults and foreclosure activity increased dramatically as easy initial terms expired, home process failed to go up as anticipated and Adjustable Rate Mortgages (ARM) in interest rate reset higher (Mohan, 2009).

Some banks in the USA and UK ran into problems with pressure on both sides of their balance sheet. On the assets side, the recession adversely affected the ability of bank customers to service their debts. Failing real estate and high lending limits implies that the collateral no longer covered the total amount of the mortgage or the loan. Banks had to write off large sums. On the liabilities side, banks faced mounting problems to finance their mortgage with deposits (Basel Committee on Banking Supervision, 2004).

In Nigeria, the Tier 1 capital of some banks was eroded as a result of provisions made for non-performing margin loans and credits to customers within the oil and gas sector.

The Public and Government Reaction to the Global Financial Crisis

The reaction of the public to the financial crisis was hostile. While calling for more stringent regulation of banks and a halt to cash bonuses to bank directors, they embarked on panic withdrawal of funds. Groups gathered outside the branches of HBOS, the royal Bank of Scotland and Lloyds TSB in protest at the £37 billion rescue plan. Students and activists also took to the streets of Glasgow to make their feelings clear about the government's bail out of banks. (Scotland Tv, 2008). The response of the government as a dominant stakeholder was more elaborate. They instituted rescue plans and nationalization of banks. In the USA, the congress approved $700 billion financial- rescue package to buy equity in financial companies. (Shah, 2013). As stated by Shah (2013), in Germany, the government pledged 400 billion Euros to recapitalize banks in distress and set aside 20 billion Euros in its budget to cover potential losses from loans. According to Alastair (2008), the United Kingdom, the Government instituted a rescue plan. The rescue plan provides for several sources of funding to be made available to an aggregate of £500 billion in loans and guarantees. The sum of £200 was earmarked for short term loans through the bank of England's special liquidity scheme, Secondly; the government also supported British banks in their plan towards increasing their market capitalization through the bank recapitalization fund. A second bank rescue package of £50 billion was announced by British government on the 19th of January 2009. The package was designed to increase the amount of money that banks could lend to business and private individuals.

In 2008, the British government invested £37 billion into three main high street banks under the bailout plan. Royal bank of Scotland took £20 billion with the government taking a controlling 60% stake in the bank. The sum of £27 billion went to Lloyd and HBOS for a 40% government stake. The British Government went ahead to nationalise Northern Rock and Bradford and Bingley (BBC, 2008).

Some regulators embarked on management change in some banks, intensified supervision, and examination of the credit portfolio of banks, insistence on capital adequacy and cut in interest rate. For example, in 2009, the Central Bank of Nigeria (CBN), based on the report on Targeted examination of some banks declared that some selected banks were in "grave situation". The Governor of CBN went ahead to inject N620 billion into the banks and effected a change in the management of the affected banks (TRLPAW, 2009:58). As a survival strategy, Banks embarked on staff/branch rationalization, pay cut, cost control and a cap on credit expansion. They also assessed rescue package put together by the regulators.

An Overview of the Changes in the Nigerian Banking Sector

Although the Nigerian Banking Sector is undergoing some transformation, the concept of change in the Sector is however misinterpreted and therefore transmogrified. Although many employers in the sector talk about attracting and retaining talents, in order to satisfy sectarian and political agenda, the former is pursued with fanatical zeal while the latter receive scant attention (Omoijiade, 2010). It is now fashionable for experienced hands to be excluded from key management positions, through deliberate policies of exclusion predicated on age. This is anachronistic as it is not consistent with best practice. For example, there is no longer retirement age in Britain. In order to implement the European Commission employment Framework Directive, the UK in October 2006 promulgated the age discrimination Act prohibiting discrimination on ground of age. By virtue of the said legislation, all aspects of the employment relationship are affected, including recruitment, promotion, retirement, termination, post employment and some aspect of pension. The Australian Age Discrimination Act No: 63, 2006 also made similar provision. In 2011, the default sixty-five years age limit was abolished in the United Kingdom. (4(1) 6 The Employment Equality (Repeal of Retirement Age Provisions) Regulations NO 1069, 2011).

The Nigeria Banking Sector is on its road to perdition as unscientific management practices abound. The worst hands are located and given jobs they are not suited for. In their study relating to manpower in failed banks in Nigeria, Mamman and Oluyemi (1994) found that in appointing or selecting people in failed banks, due attention was not given to personal qualities, including appropriate qualification, managerial/professional experience, track records and integrity. The position of Mamman et al is congruent with the study of Costa (2006), who noted that those in authority in a bank could bring misfortune to a bank through underestimation of competition, running a bank like a non-banking business, promotion of the wrong people, assignment of wrong position to people and hiring external talent without tapping the potentials which exist within the organization.

In Nigeria, the crucial role/importance associated with management/human resources in banks has become more pronounced than hitherto. The success of banks as a service industry depends greatly on the quality of its personnel. Management quality underlies all other factors in a bank. As Mamman and Oluyemi (1994) indicated, an otherwise adequate capital may turn inadequate with bad management. As Kubr and Wallace (1993) noted, for improperly managed business organization (including banks) even massive injections of finance and material resources, as well as super human efforts, produce only fleeting improvements. The quality of management is a major factor, which differentiates excellent bank from their less successful peers. According to Aristobolo (1991), while good management promotes the health of a bank, bad management will lead to a deeper crises through compounding losses as well as misallocating of resources.

State Intervention in the Industrial Economic Life of a State and the Response of Labour

We must understand the purpose of state intervention in any institution. As argued by Scott (2009:4), "Capitalist development requires that government play two roles, one administrative, in providing and maintaining the institutions that underpin capitalism, and the other entrepreneurial in mobilizing power to modernize these institutions as needed." The intervention of the state in the industrial economic relations of a society necessarily serve the interest of the ruling economic and political class. In all exploiting societies, the law is a political tool. It is not a neutral concept without any semblance of dependence on the socio-political system. In Nigeria, the law perpetuates the prevalent modes of property ownership and class structure. The laws are enforced in such a manner, that the focus of attention is the maintenance of the interest of capital at the expense of labour.

As a result of that sordid state of Labour Management relations, employers in some Banks are yet to give the employees a voice in matters affecting them. Management prerogative is still used as a sword against labour. The belief that employees are only to accept orders and not heard is still fashionable in the sight of many managers. The notion of managerial prerogatives carries with it the implication that there are actions or areas for action so essential to management that they must remain unilaterally the property of management if management itself is to continue to exist. Academic writers have actually tended to question either whether such a "frontier" can be said absolutely to exist, or whether such a view is conducive to the most constructive attitude to the task of management or management- Union relations. This perspective is supported by Jordaan (1991) when he stated in South Africa, the scope of management prerogative is limited by statue, collective bargaining, considerations of public policy and, of public policy and, of course the interest of employees. Similarly, Kinamugire (2009), posits that in South Africa, the legislature has interfered in employment relationships in order to maintain the balance of power and protect both the interests of employers and employees.

In asserting labour rights towards ensuring its existence, every barrier must be broken down. For example, the Union should be able to demand for the removal of any reactionary manager. In Federated Motors Industries Versus Associated Companies African workers Union (1979), the National Industrial court held that "interaction between workers or their representatives and the works manager must perforce be connected with the workers terms and conditions of employment.

In furthering the distribution of advantages by the leadership, cronies including chief Risk Officers are engaged to occupy sensitive positions in the organization with a view to serving the personal interest of their principal. Thus, the objective of monitoring, independence and control instituted for the enhancement of corporate governance is subverted.

The role of employees or their representatives in the enhancement of good corporate governance is recognized under the OECD Principle of corporate governance. As stated in OECD Principles of Corporate governance (2008:139), "Unethical and illegal practices by corporate officers may not only violate the rights of stakeholders but also be to the detriment of the company and its shareholders in terms of reputation effects and an increasing risk of future financial liabilities. It is therefore to the advantage of the company and its shareholders to establish procedures and safe harbours for complaints by employees, either personally or through their representative bodies, and others outside the company, concerning illegal and unethical behaviours".

To enable employees or their representatives maintain their institutional identity, their right to hold alternative views is imperative. Whistle – blowing, which is within the rubric of political behaviour, is one of the medium for achieving this (Robbins and

Judge 2009:461). To enable employees and their representative act as an enabler of corporate governance, their ability to constrain the ability of management to act arbitrarily must be acknowledged. For example, as reported in Daily Trust (2010:35), the employees of one of the banks in Nigeria, through their Central Labour Organization, Nigeria Labour Congress, drew the attention of the Central Bank of Nigeria governor to some unethical practices of the leadership of the bank (i.e. De-Marketing, Stripping of Assets, manipulation of the Books of the Bank, Recruitment of management staff as cronies, poor labour relations, arbitrary increase in the compensation package of Directors etc.). In the Nigeria banking sector, the role of employees or their representatives as enabler of corporate governance receive very scanty attention as the leadership is unwilling to respect alternative views and submit itself to monitoring. Kashyap, Rajan and Stein (2008:1) and Cohen, Jeffrey, Krishnamoorthy, Ganesh, Wright and Arnie (2009) document that unle\ss management allows itself to be monitored; the substance of governance activities will be subverted.

To enable labour overcome the prevailing offensive of the owners of capital and constrain the ability of the management to act arbitrarily and undermine the elements of monitoring, independence and control that are vital in corporate governance, they must unite. One anti union strategy often employed to frustrate efforts to organize a union is for management to exploit the tribal difference within ethnic groups (Fashoyin, 1980). As argued by Lukes (2005), when workers fail to rebel in circumstances where rebellion should be anticipated, it might be due to factors undermining the requisite class solidarity like class, compromise, racial/tribal divisions. A strike organized by the Nigeria Labour Congress in December 1950 failed, partly because the workers in question were divided into artificial interest groups (Ananaba, 1970).On why labour failed in self-emancipation, Eskor (1989) wrote:

Radical Labour leaders and militant unions and unionists were harshly persecuted. Various divide and rule tactics were used, by the regime showing preference for collaborationist leaders, or by its using various means including tribalism to split and weaken militant unions.

It is perhaps necessary to collaborate the position of Eskor (1989) with what transpired in Niger-state in 1985. In 1985, the then Governor of Niger- State, David Mark, announced, unilaterally without any consultation with the trade unions, the suspension of workers allowances for a period of six months, covering the months of January- June 1985. That as usual, was said to be necessary sacrifice which the workers had to make in the interest of the economy. On the 26th July, 1985 the Niger state chapter of the Nigeria Labour Congress (NLC) in response called a strike action against the state government. Most of the workers did not only ignore the call for strike action they reported for work earlier that day than was the practice. The failure of the strike was as a result of the announcement by the Governor of the state to the people, that the strike was called by some strangers in Niger state (i.e. non-indigene) who were in control of the state congress of NLC (Worker's Vanguard, October, 1985).

Summary of Major Findings from the Review of Literature

Research Question (i)

Management arbitrariness exercised through management rerogatives/discretion constraints good corporate governance.

Finding from the Review of Literature

The arbitrariness of the management exercised through the instrumentality of management prerogative/ discretion, contribute to the collapse of the elements of independence, monitoring and control in corporate governance.

Research Question (ii)

Inadequate management could render adequate capital or bailout inadequate.

Finding from the Review of Literature

a. Inadequate management constrains good corporate governance.
b. Good corporate governance and adequate management will enhance the health of the global financial system.

Research Question (iii)

Is labour an enabler of adequate management and good corporate governance.

Findings from the Review of Literature

The existence of labour with the ability to curtail the ability of management to act arbitrarily will enable the growth and development of adequate management and good corporate governance.

Recommendations

i. Labour was the first casualty, during the global financial crisis. The working class anywhere in the world must realize that their interests are tied together. The working people of the world should learn from the Nigerian experience. In line with the popular African saying, the event which took place in the house of a sheep will also happen in the house of the goat.
ii. The existence of good corporate governance is vital in the enhancement of the health of the global financial system.
iii. The attainment of good corporate governance could be constrained through management arbitrariness through the instrumentality of management prerogative/discretion.
iv. To enhance good corporate governance, strong institutions, like organized labour, must exist and assert their institutional identity by challenging the ability of the management to act arbitrarily.
v. The existence of adequate capital alone will not promote the health of the global financial system, as adequate capital could be rendered inadequate by bad management. To secure the health of the global financial system, the need for the existence of adequate management must be acknowledged.
vi. To avert future global financial crisis, the development of human capital is imperative. The discarding of experienced hands by management on ground of political expediency is a dynamo of danger. The core competencies of experienced hands in the global financial sector must be diverted to proper ends.
vii. The attainment of the existence of adequate management must not be the responsibility of *"to whom it may concern"*. Labour must upgrade its advocacy role with a view to achieving this key imperatives.

Conclusion

As a result of the present study and review of the present and future events in the finance sector, I am forced to conclude that the occurrence of another crisis in the finance sector in future is a sure event. The Nigerian banking sector is on its road to perdition. The global financial system is not exempted from this impending calamity. The future crisis in the financial sector will not be arrested until the lesion of success through study of past failure is learned. All stakeholders; including management must be educated on this benefit. The instituted corporate governance in the past were rendered inadequate by inadequate management. The injection of further capital or bail outs alone will not enhance the health of the financial system. The existence of good corporate governance and adequate management will assist in averting future financial crisis in the world. Labour must act as an enabler of the institution of good corporate governance and adequate management. They must refuse to constrained by management prerogatives/discretion. As a working class organization, labour must maintain its institutional identity by disagreeing with management when there is need to do so. A trade union that is always agreeing with the management is no longer a trade union. Where the goal of defending members interest is not attained, the corporate existence of labour will be in jeopardy.

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