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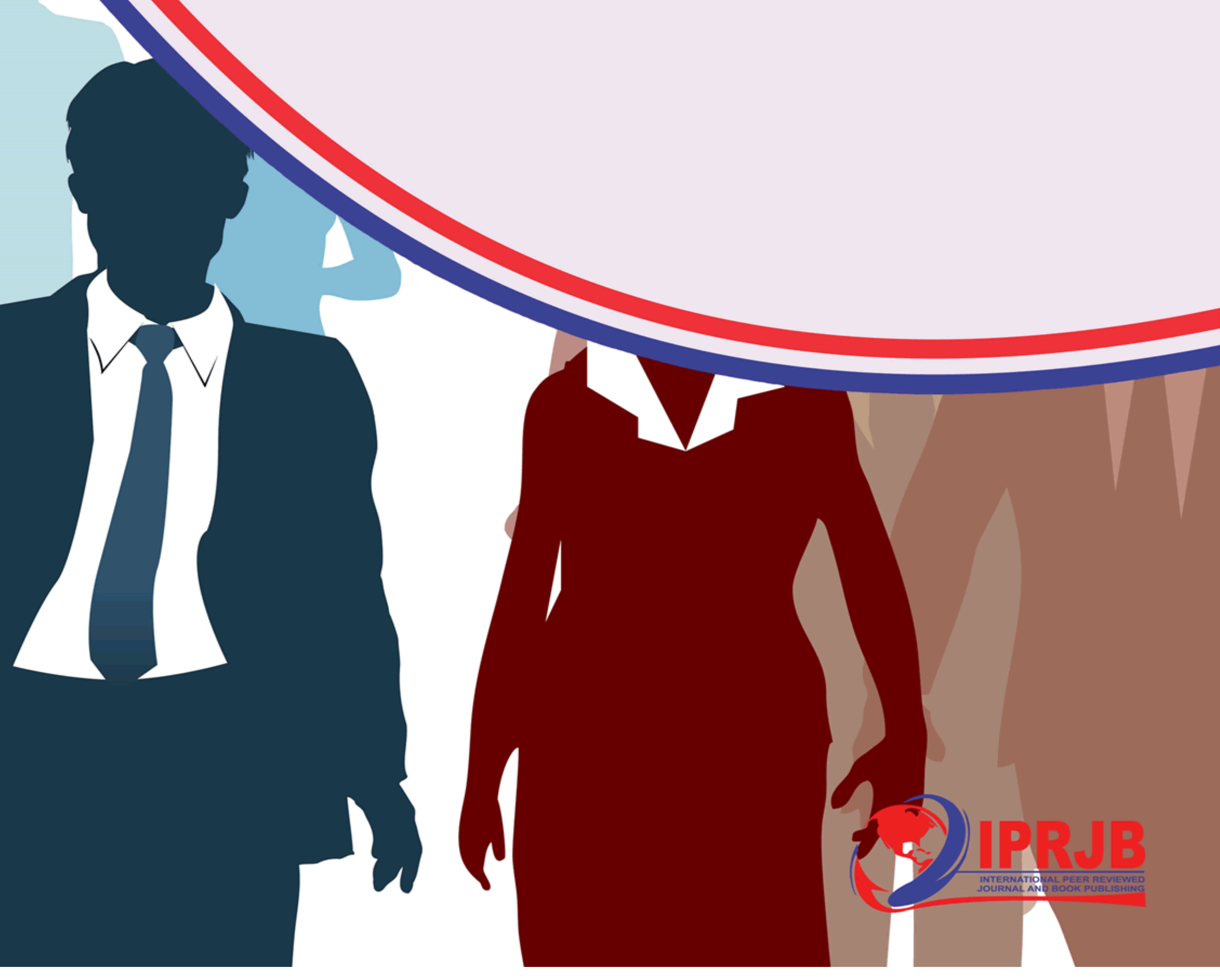

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EMPLOYEE DOWNSIZING STRATEGIES AND FIRM PERFORMANCE: EVIDENCE FROM THE KENYAN CONTEXT

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Abstract

Purpose: Employee downsizing has various ramifications on firm performance outcomes. Employees' responses to the downsizing actions are manifested in performance outcomes. This paper examines the effects of employee downsizing strategies on firm performance outcomes in a manufacturing firm. The study was based on the Institutional Theory on downsizing and the Theory of the natural and Duration of Employment.

Methodology: A survey research design was adopted targeting 436 employees of Unga Milling Companies Limited, and a sample of 148 respondents was selected for the study. Stratified and simple random sampling strategies were used to select respondents who participated in the study. The main data collection instrument was a questionnaire. Data was analysed using descriptive and inferential statistical techniques. Correlation tests and multiple regression were conducted. Finding of this study indicate that employee downsizing, has negative significant effects on firm performance outcomes.

Results: This study concludes that employee separation has serious ramifications on firm performance.

Recommendations: The implications of this study point to the need for a cordial working relationships between management and firm employees. Hence, execution of downsizing activities should be participatory.

Keywords: *Employee downsizing, effects, firm performance, strategies*

1.0 INTRODUCTION

Leadership strategies adopted in firms can have a profound effect on firm performance. Virtually all firms desire to achieve continuous performance which could translate into firm growth and progress (Velcu , 2007). Performance is not an isolated aspect in terms of firm growth and survival, given that it equally has an impact on employee separation (Sparrow & Marchington , 1998). Employee separation strategies constitute one of the strategies that firms could use to attain superior performance in the 21st century. The most frequent justification for employee separation in firms is the need to reduce staff levels in order to cut costs or to take advantage of technological advances which require fewer people to operate the business (Cole, 2004). The need to attain efficiency and effectiveness as suggested by (Pinning and Woolcock,1995), advances in information systems and production technologies have facilitated the outsourcing of many operations traditionally carried out within the boundaries of the firm (Mamoria & Gankar , 2001). Firm performance can be realized by the firm opting for the best employee separation strategies (Hutchinson, 2004). Employee separation in most firms has engendered considerable fear and distrust among management, particularly on the part of the lower level employees (Cameron, 2004). However, employee separation may also play a valuable role in matching ability to available jobs, and therefore can be optimally used when the ability of the agent is uncertain (Armstrong , 2006).

When firms engage in production, they wish to maximize profits and minimize costs. This is a situation where firms can be motivated to adopt such measures as downsizing and/or dismissal so as to improve efficiency and profitability (Wayhan & Werner, 2000). This may not have positive effects on the employees remaining in the firm Coutler and Robbins, 2007). Moreover, limited studies have been conducted on the impact of employee downsizing on firm performance in the developing context.

1.1 Theoretical Review

This study adopted the Institutional theory of downsizing and the natural duration of employment theory. Evidence that suggests that downsizing does not have absolute positive effects to firms given that it could end up harming thousands of employees and creating social problems. However, it still remains popular practice in most firms since the 1980s. Many studies have explained the motivation for downsizing in firms from an economic point of view (Cascio et al., 2010; Rigby, 2002). In spite of the fact that firms know that downsizing is not necessarily advantageous to their firms, they still apply the practice. There are forces that make downsizing attractive according to the institutional theory, even though the expected benefits of downsizing are not remarkable (McKinley et al., 2001). The three institutional forces are constraining cloning (imitation) and learning. Since then, there has been some research which proved that the institutional factor is one of the motivations making firms to downsize (Budros, 1999; Lamertz & Baum, 1998; Norman, 1995). McKinley et al., (2001) have further explained managers' psychological processes in deciding on the downsizing practices from the socio-cognition viewpoint. They recognized that apart from economic and institutional factors and after going through the social cognition process, managers consider downsizing to be a legitimate and ethically acceptable management practice.

Managers have widely accepted the idea that downsizing has been institutionalized as an efficient and inevitable management practice. McKinley et al. (2001) suggests that institutional theory of downsizing conclude that the rationale behind downsizing decisions could be derived from economic factors, institutional factors and social cognition. Some firms consider one single factor, others two, while others all the three factors. The downsizing decisions that are made considering these three factors occurs mostly in the post-industrial societies in western countries which raises questions as to its relevance in the developing context.

The theoretical viewpoints from the works of McKinley et al., (2001) are rather meaningful because they provide more explicit explanations and predictions on the motivations of downsizing. Furthermore, they help people to better understand the practice of downsizing, which is the most commonly used employee separation strategy in firms (McKee-Ryan & Kinicki, 2002). However, no empirical research supports or modifies their ideas. Hence, in this study, the aim to find out if institutional theory of downsizing can both explain the motivation of business downsizing and the phenomena happening in the process. Nevertheless, due to limited downsizing theories, current institutional theories of downsizing remain a theoretical concept. This thus limits the scope for conducting empirical quantitative research with a large sample. Downsizing is defined as in order to adjust to the environmental changes, break through management difficulties and improve organizational efficiency, promote their competitiveness and productivity, companies use different methods to reduce costs, restructure organizations, and cut down labours.' Downsizing as the major or the last necessary resort has been widely used by both public and private sectors worldwide. In the past, downsizing was perceived as an indicator of organizational decline; now it is regarded as a formal strategy to restructure an organization (McKinley *et al.*, 1995). Managers even downsize and rebuild organizations consistently in order to promote productivity and increase share prices.

Even some profit-making companies, for example, Kodak, Citicorp, and Levi Strauss apply this strategy (Ellis, 1998). Downsizing cuts the number of employees deliberately (McKinley et al., 1995). Due to its long-lasting popularity, it remains a controversial whether it is advantageous or disadvantageous to organizations and employees (Mone, 1997). The institutional theory of downsizing of McKinley et al. has placed the emphasis on the research of motivation. Some of the factors that drive firms to downsize include; the macro-level and micro factors. Baron and Kreps (1999) in addition suggests that the trend in global competition should be put in consideration.

1.2 Empirical Review

Presumably the employees who trust the management of an institution and think that layoffs were fair, just and well planned will have trust and confidence in the management deeds and actions. Lack of management receptiveness to employees could result in some employees losing the desire to continue working for that organization. Koontz and Weihrich (2008) suggests that the staff in an organization can be affected by the retrenchment strategies intended to improve organizational flexibility, increased employees' responsibility and streamlined operations. Employees will respond well with reduced trust when an organization breaks its psychological contact with them.

Deems (2001) suggests a host of negative moods that will occur on employees after retrenchment process. Workers can feel hopeless, irritable or unwanted at work place. When employees feel this way, they lack the motivation and will not understand what they do poorly and what they do well, hence will not value their work. Chuck et al. (2005) describes retrenchment or layoffs as like road kill in the animal kingdom. As soon as the word goes out that someone is leaving (being laid off) from the firm, the remaining co-workers start scheming to scavenge the office leftovers – chairs, computer monitors, filing cabinets, and even staplers. Mary Wong the president of a Human Resources Consultancy company says

"this issue is practically everywhere, professionals – anyone you and I would normally consider to be very adult-turn into children" over the prospect of picking an empty office clean of its "goodness".

Sometimes however, and this is where it gets disrespectful, office scavengers move in before the employee who has been laid off, leaves. Ethics consultant Steve Lawler tells the story of a laid off manager, who just hours after hearing the bad news was getting requests for the expensive Herman Miller Aeron chair in which he was still sitting. Office scavenging is a strange and predictable aspect of office life and it happens everywhere. But, if you must scavenge, and you probably will, do the right thing by maintaining the dignity of departing co-workers. Wait till the office is empty before you strike.

According to Williams (2009) downsizing is the planning of jobs in a firm. Whether it is because of cost cutting, declining market share, or overaggressive hiring and growth, it is estimated that companies eliminate more than three million jobs a year. Two thirds of firms which downsize do it for the second time within a year. In theory, downsizing is supposed to lead to higher productivity and profits, better stock performance, and increased organizational flexibility. However, numerous studies demonstrate that it doesn't. For instance a 15 years study, of downsizing found that downsizing 10 per cent decrease in costs that forms that downsized increased their stock price by a small percentage.

Before the layoffs firms need to pay attention to the "survivors, the employees remaining after layoffs have occurred. Susan Bowman, executive vice president for Human Resources at Guinity, an internet company that went through significant downsizing, says, these are people who are left running the company intuitively you have to know that people are distracted by these events. Management consultant Diana Durken agrees, that the people who are left behind start looking behind their backs wondering whether they are the next. They need to be rejuvenated, so that they can refocus on the future. A company that endures a layoff mercilessly bleeds critical personnel. It staggers from the loss of talent, knowledge, and morale for months, even years, after a layoff. The loss of productivity after a layoff is profound Downs, (2005).

2.0 METHODOLOGY

The study employed a survey research design. The target population was 436 employees drawn from 5 miller manufacturing firms in Uasin County. A sample of 148 employees was obtained using the coefficient of variation formula (Nassiuma, 2000). The study sampling frame was stratified into five stratus. The individual respondents were selected using simple random sampling. Semi Structured questionnaires were used to collect primary data. Data was analyzed using descriptive and inferential statistical methods such as ANOVA, Pearson correlation coefficients r and multiple regression models.

3.0 FINDINGS

Findings on employee downsizing are presented in Table 1. The results from the study revealed that, of the total respondents, 0.9% (1) strongly agreed that downsizing strategy in the company has resulted in the reduction of the number of employees in the last few years, 51.8% (59) of them agreed, 19.3% (22) disagreed, 0.9% (1) strongly disagreed while 27.2% (31) of the respondents were neutral. The mean value was 3.32 and standard deviation 0.825 implying that there is still uncertainty as to whether downsizing strategy in the firm has resulted in the reduction of the number of employees in the last few years.

In determining whether downsizing strategy has been the common form of employee separation in the organization, the study revealed that; 36.8% (42) of the respondents strongly agreed, 29.8% (44) of them agreed, 7% (8) disagreed while 26.3% (30) of the respondents were neutral. The results summed up to a mean of 3.91 and standard deviation of 0.815.It can therefore be inferred that downsizing strategy is the common form of employee separation. In a related question of whether downsizing strategy in the company has been well adopted, results from the study revealed that, the question had a mean of 3.91 and standard deviation of 0.815.This was as a result of 26.3% (30) of the respondents strongly agreeing, 41.2% (47) agreeing, 26% (3) disagreeing, and 29.8% (34) being uncertain.

In order to find out whether, downsizing strategy in the company has been used to remove employees who do not meet performance standards, respondents were asked to state the degree to which they concurred with the above. Of the total respondents, 53% (6) of the respondents strongly agreed, 45.6% (52) of them agreed, 15.8% (18) disagreed, while 33% (38) of them were neutral. The results summed up to a mean of 3.4 and standard deviation of 0.817 meaning it has not been fully established if downsizing strategy has been used to remove employees who do not meet performance standards. The study further enquired from the respondents whether downsizing strategy in the company has been recognized as an effective management strategy to restructure the company. The findings revealed that 6.1% (7) of the respondents strongly agreed, 51.8% (59) of them agreed, 1.8% (2) disagreed, 5.3% (6) strongly disagreed while 35.1% (40) of the respondents were neutral. The results summed up to a mean of 3.52 and standard deviation of 0.854 inferring that downsizing is considered an effective management strategy to restructure the company.

In a bid to establish if downsizing strategy has focused on employees who do not adhere to the company rules, the respondents were asked to respond accordingly. 16.7% (19) of the respondents strongly agreed, 48.2% (55) of them agreed, 6.1% (7) disagreed and 28.9% (33) of the respondents were neutral. The item realized a mean of 3.75 and standard deviation of 0.804 revealing that downsizing strategy focused on those employees that do not adhere to company rules. To establish whether downsizing strategy has been used to retrench employees in order to overcome financial difficulties, respondents were requested for their opinion and the results were

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such that, 0.9% (1) of the respondents strongly agreed, 43% (9) of them agreed, 16.7% (19) of them disagreed while 39.5% (45) of the respondents were neutral. The results summed up to a mean of 3.28 and standard deviation of 0.747 an indication that it is undefined if downsizing strategy has been used to retrench employees in order to overcome financial difficulties.

Table 1.Employee Downsizing

Statement		SD	D	N	A	SA	Mean	Std. Dev
Resulted in the reduction of the number of employees in the last few years	Freq. %	1 0.9	22 19.3	31 27.2	59 51.8	1 0.9	3.32	0.825
Been the common form of employee separation in the organization	Freq. %	0 0	8 7	30 26.3	34 29.8	42 36.8	3.96	0.959
Been well adopted and carried out properly in the company	Freq. %	0 0	3 2.6	34 29.8	47 41.2	30 26.3	3.91	0.815
Been used to remove employees who do not meet performance standards	Freq. %	0 0	18 15.8	38 33.3	52 45.6	6 5.3	3.4	0.817
Been recognized as an effective Management strategy to restructure the Company	Freq. %	6 5.3	2 1.8	40 35.1	59 51.8	7 6.1	3.52	0.854
Focused on employees who do not adhere to Company rules.	Freq. %	0 0	7 6.1	33 28.9	55 48.2	19 16.7	3.75	0.804
Been used to retrench employees in order to overcome financial difficulties	Freq. %	0 0	19 16.7	45 39.5	49 43	1 0.9	3.28	0.747
Before retrenchment the employer always notifies the Minister of labour & Unions before effective date.	Freq. %	0 0	3 2.6	28 24.6	26 22.8	57 50	4.2	0.904
Mean	***3.67***							
Std. Deviation	***0.4897***							
Skewness	***-0.749***							
Kurtosis	***-0.082***							

In order to ascertain if before retrenchment the employer always notifies the Minister of labour & Unions before effective date ,results revealed that, 50% (57) of them strongly agreed, 22.8% (26) of them agreed, 2.6% (3) of them disagreed and 24.6% (28) of the respondents were neutral. This summed up to a mean of 4.2 and standard deviation of 0.904.On the whole, before retrenchment, the employer notifies Minister of labour & Unions before effective date. In general, the results on employee downsizing summed up to a mean of 3.67, standard deviation of

0.4897, Skewness -0.949 and kurtosis -0.082.This infers that most of the respondents were agreeable and there is less variation in the responses. Additionally, the skewness and kurtosis values ranged from -1.96 to +1.96 hence there was normal distribution of the responses.

The results on firm performance are presented in Table 2. show that most (43%, 49) of the respondents agreed that there was an increase in sales in the last two years, of the respondents those who strongly agreed were 19.3%, 22, while, 9.6% (11) disagreed and 28.1% (32) were undecided . The responses had a mean of 3.72 and a standard deviation of 0.888 which suggests that the increase in sales in the past two years were above average. The study also enquired from the respondents whether there has been profits in the last two years. The results revealed that 25.4% (29) of the respondents strongly agreed that there have been profit in the last two years, 43.9% (50) of them agreed, 14.9% (17) disagreed while 15.8% (18) of the respondents were neutral. The results summed up to a mean of 3.8 and standard deviation of 0.988.This implies that profits have been realized in the last two years.

In an attempt to find out if there has been an increase in the number of employees in the last two years, respondents were requested for their opinion and the results were such that, 19.3% (22) of the respondents strongly agreed, 35.1% (40) of them agreed, 9.6% (11) of them disagreed while 36% (41) of the respondents were neutral. The results summed up to a mean of 3.64 and standard deviation of 0.904 an indication that the number of employees has been on the increase in the last two years.

In order to ascertain whether there has been an increase in the market share, results were such that, 12.3% (14) of the respondents strongly agreed, 74.6% (85) of them agreed, while 13.2% (15) of them disagreed. This summed up to a mean of 3.86 and standard deviation of 0.797.Generally, there has been an increase in the market share. Further, the study sought to find out if there has been capital in the last two years. Results indicated that 37.7% (43) of the respondents strongly agreed, 49.1% (56) of them agreed, 6.1% (7) disagreed while 7% (8) of the respondents were neutral. The results summed up to a mean of 4.18 and standard deviation of 0.815 meaning that there has been capital in the firm in the last two years.

Finally, to establish whether there is new product development, respondents were requested for their opinion and the results were such that, 26.3% (30) of the respondents strongly agreed, 52.6% (60) of them agreed, 19.3% (22) of them disagreed while 1.8% (2) of the respondents were neutral. The results summed up to a mean of 3.86 and standard deviation of 1.021.This infers that the organization engages in new product development. Generally, results on firm performance summed up to a mean of 3.5702, standard deviation of 0.9776, Skewness -1.471 and Kurtosis 1.2.From the foregoing, it can be deduced that the organization has realized improved firm performance. There is less variations on the responses as evidenced by the standard deviation. Besides, the skewness and kurtosis values ranged from -1.96 to +1.96 hence there was normal distribution of the responses.

Table 2: Firm Performance

		SD	D	N	A	SA	Mean	Std. Dev.
Sales in the last two years	Freq.	0	11	32	49	22	3.72	0.888
	%	0	9.6	28.1	43	19.3		
Profits in the last two years	Freq.	0	17	18	50	29	3.8	0.988
	%	0	14.9	15.8	43.9	25.4		
Number of employees in the last two years	Freq.	0	11	41	40	22	3.64	0.904
	%	0	9.6	36	35.1	19.3		
Market share	Freq.	0	15	0	85	14	3.86	0.797
	%	0	13.2	0	74.6	12.3		
Capital in the last two years	Freq.	0	7	8	56	43	4.18	0.815
	%	0	6.1	7	49.1	37.7		
New product development	Freq.	0	22	2	60	30	3.86	1.021
	%	0	19.3	1.8	52.6	26.3		
Mean	*3.5702*							
Std. Deviation	*0.9776*							
Skewness	*-1.471*							
Kurtosis	*1.2*							

3.1 Hypothesis testing

The study hypothesised that downsizing strategy has no significant effect on firm performance**.** Findings showed that downsizing strategy had coefficients of estimate which was significant basing on β_1= -0.368 (p-value = 0.000 which is less than α = 0.05) hence we reject the null hypothesis, and conclude that downsizing strategy has significant effect on firm performance. There was a strong relationship between downsizing strategy and firm performance (r = -0.517, p-value < .01). The results on employee downsizing revealed that the downsizing strategy has been well adopted and is the common form of employee separation. It is recognized as an effective management strategy to restructure the firm. Besides, the downsizing strategy focuses on those employees that do not adhere to company rules. However, it has not been fully established if the firm has resulted in the reduction of the number of employees in the last few years, if downsizing strategy had been used to retrench employees in order to overcome financial difficulties and if downsizing strategy has been used to remove employees who do not meet performance standards.

This is as suggested by Koontz and Weihrich (2008).According to these authors, when staff in the organization get to know of the intention of downsizing, the staff with the organization will be affected by the downsizing strategies intended to improve organizational flexibility, increased employees' responsibility and streamlined operation. The result is that the remaining employees will lack desire to continue working for the organization due to the negative mood brought about by downsizing. On the same note, Deems (2001) posits that the downsizing process brings about a host of negative moods which makes the employees hopeless, irritable or unwanted at work. Such feelings will result to lack of motivation and unawareness of what was done poorly and well. The end result is that the employees will not value their work resulting to poor firm performance.

Table 3: Hypothesis testing -Regression Results

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	8.614	0.642		13.428	0.00		
downsizing strategy	-0.587	0.132	-0.368	-4.466	0.000	0.831	1.203
R Square	0.378						
Adjusted R Square	0.361						
F	22.292						
Sig.	.000b						
Pearson correlation (r)	-.517**						
Durbin-Watson	2.04						

a Dependent Variable: firm performance

4.0 CONCLUSIONS

This study concludes that employee downsizing has a negative significant effect on the firm performance. The remaining employees hence, exhibit negative moods towards the firm as a result of low motivation and hopelessness which impacts on firm performance. Employees should thus be made aware of the retrenchment program and the justification for the firm undertaking such a program. Inspite of the fact that downsizing has ramifications to employee productivity, it could also be a good tool to separate the employees who may not fit in the firm standards. The findings of this study have implications on the strategies firm adopt in implementing employee separation.

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