

**EFFECT OF METHODS OF DOWNSIZING ON RETAINED EMPLOYEE
PERFORMANCE IN MANUFACTURING FIRMS IN NAIROBI**

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DECLARATION

This project is my original work and has not been presented for a degree in any other university.

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ABSTRACT

Downsizing has been one of the main strategies that organizations use to make them stay competitive and survive in their business niche. Downsizing strategy to deal with the economic pressures in the environment, downsizing may at times prove unavoidable, thus the ultimate goal should be to eliminate nonessential company resources while minimizing the negative impact on the remaining organization. In order for an organizational downsizing to be most effective, management must communicate openly and honestly with their employees regarding the reason for the downsizing and the downsizing plan. This study sought to establish the effect of effect of different methods of downsizing on performance of retained employees of manufacturing firms of Nairobi. The study is anchored on institutional theory, resource-based view theory and stakeholder's theory. This study employed descriptive research design, and this allowed the research to describe the variables of interest in terms of their characteristics. The study focused on 38 manufacturing firms which have downsized in the last 3 years in Nairobi and are registered by Kenya Association of Manufacturers. The respondents were the human resource managers of the respective firms. A Structured questionnaire was used to collect the primary data through drop and pick later approach. Descriptive statistics were also used to quantitatively describe the imperative structures of the variables using standard deviation, frequency and the mean. The quantitative data was analyzed using the SPSS version 23 and used the multiple regression models. The study concludes that employee attrition, voluntary termination, and early-retirement incentives all have positive significant effects on performance of retained employees of manufacturing firms of Nairobi, while compulsory 1termination had negative significant effects on employee performance. Layoffs must be communicated clearly to employees and should be well communicated. Great care must be exercised before implementation of such policies. Before implementation of lay off measures, manufacturing companies must have an elaborate operational plan that is predictable effective and safe in the long term. It is imperative for the manufacturing companies to develop their own effective means to communicate so as to ensure best results of its implementation. Human resources managers should design policies that are more appropriate to employees who leave the organization and those who stay at work, decreasing the negative psychological, administrative and economic consequences.

CHAPTER ONE : INTRODUCTION

1.1 Background of the Study

Downsizing has been one of the main strategies that organizations use to make them stay competitive and survive in their business niche. In many companies, a lot of effort goes into separation packages and support for the employees who are leaving the organization as a result of downsizing with very little or even no attention given to the employees who are remaining. However, what creates a high level of distrust in organizations is that leaders fail to acknowledge the impact of restructuring and downsizing on the people who are staying. Makawatsakul and Kleiner (2014), observed that for several years, there has been a strong tendency to adopt a downsizing strategy to deal with the economic pressures in the environment. Once seen as a short-term measure, downsizing has become the way to increase profitability.

The study is anchored on institutional theory resource-based view theory and stakeholder's theory. Institutional theory by Scott (1995), in his work on organizations and institutions focuses on the profound and more robust social structure aspects. The resource-based view (RBV) was introduced by Wernerfelt (1984). It proposes that competitiveness can only be attained by innovatively giving high value to consumers. RBV refers to the contention that all organizations are a collection of unique capabilities and resources. A stakeholder analysis process was defined by Mansell (2013) as a process of giving insights into understanding of the interaction between stakeholder and a project. The

stakeholder analysis is a tool that helps project members categorize and prioritize stakeholders who play an important role in project success.

The Kenya business environment has been undergoing drastic changes for some time now. Some of these changes include the accelerated implementation of economic reforms by the government, the liberalization of the economy, globalization, discontinuation of price controls, privatization and partial commercialization of the public sector and increased competition. In this changing environment, manufacturing firms have to constantly adapt their activities and internal configurations to reflect the new external realities. During the past years, the effects of economic recession forced manufacturing firms to make hard decisions about their human capital investments as they worked to contain costs and maintain competitiveness. This paper therefore is aimed at finding out the effect of reduction of employees on the performance of retained employees in manufacturing firms in Nairobi, Kenya.

1.1.1 Concept of Downsizing

Downsizing is a management tool which refers to the process of reducing the number of employees on the operating payroll by way of terminations, retirements or spin-offs. The process essentially involves the dismissal of a large portion of a company's workforce within a very short span of time. From the management's point of view, downsizing can be defined as a set of organizational activities undertaken by the management, designed to improve organizational efficiency, productivity, and/or competitiveness (Martin, 2013). Downsizing is not the same as traditional layoffs. In traditional layoffs,

employees are asked to leave temporarily and return when the market situation improves. But in downsizing, employees are asked to leave permanently. Both strategies share one common feature: employees are dismissed not for incompetence but because management decided to reduce the overall work force. In order for an organizational downsizing to be most effective, management must communicate openly and honestly with their employees regarding the reason for the downsizing and the downsizing plan. Managers also need to listen to employees and provide comfort when necessary in order to keep the morale high among the survivors of the downsizing (Mishra, Spreitzer, & Mishra, 2014). However, there is evidence that downsizing can have adverse long-term consequences that some companies never recover from. Downsizing may actually increase the likelihood of bankruptcy by reducing productivity, customer satisfaction and morale. Firms that have downsized are much more likely to declare bankruptcy in the future, irrespective of their financial health.

1.1.2 Employee Performance

Employee performance is a job-related activity expected of a worker and how well those activities were executed. Many business personnel directors assess the employee performance of each staff member on an annual or quarterly basis in order to help them identify suggested areas for improvement. Employee performance is a core concept within work and organizational psychology. It was a multidimensional and dynamic concept. It was a term synonymous with human resources and it was all about performance of employees in a given organization and the level at which the employees performed their work. It has

to do with all the job activities expected of an employee and how well those activities were carried out, (Kavoo-Linge, 2013).

Feldman (2012) some of these changes include the accelerated implementation of economic reforms by the government, the liberalization of the economy, globalization, discontinuation of price controls, privatization and partial commercialization of the public sector and increased competition. In this changing environment, manufacturing firms have to constantly adapt their activities and internal configurations to reflect the new external realities. During the past years, the effects of economic recession forced manufacturing firms to make hard decisions about their human capital investments as they worked to contain costs and maintain competitiveness (Huselid, 2015).

1.1.3 Manufacturing Firms in Nairobi

The manufacturing sector is an important contributor to the Kenyan economy. It contributes about 10% GDP (Gross Domestic Product), 13% employment rate and 12.5% exports (KNBS, 2015). In the vision 2030, one of the key economic pillars is focused on leading the nation to a medium level income country by the year 2030, especially in the sector of manufacturing. The major role of this sector is to create wealth and create more job opportunities. This is to be achieved in the Steel and Iron industry through the establishment of Integrated Steel Mill, technology avenues, establishment of Small and Medium Enterprise (SME) parks, upgrade of goods from the Industrial and Technology parks from small and medium enterprises and commercialization of research and development results and Industrial Manufacturing Clusters (Chepng'eno, 2014).

According to a report by Kenya Association of Manufacturers (KAM, 2014), the association affirms that the sector has got fourteen subsectors: Building, mining and construction; Food and beverage; Chemical and allied, Energy, electrical and electronics; Fresh Produce; Plastics as well as rubber; Pharmaceutical together with medical; Paper and paperboard; Textile and apparels, Timber, wood products and furniture; Motor vehicle assembly; Services and consultancy, Metal and allied; Leather products and footwear and accessories. Of the fourteen sectors, twelve are associated with processing and adding value whereas the other two offer crucial services to improve official industry. There are 766 multi-sector firms in the manufacturing company's category in Kenya, which are well known, 499 of which are large-scale manufacturing companies (Okwiri, 2015).

1.2 Research Problem

Downsizing may result in detrimental effects on the performance and quality of their work if not implemented appropriately. Companies must be careful to avoid sending the wrong messages to employees, shareholders and the media. Skillful downsizing should help a company emerge from challenging economic conditions in stronger shape and performance. Organizations should come up with creative efforts to avoid downsizing negative effects to employee performance. Negative effects of downsizing include hiring freezes, salary cuts or freezes, shortened work weeks, restricted overtime hours, unpaid vacations and temporary plant closures (Joan, 2015). Downsizing may at times prove unavoidable, thus the ultimate goal should be to eliminate nonessential company resources while minimizing the negative impact on the remaining

organization and hence the need to carry out the study on effects of downsizing on employee performance.

In 2018 At least 330 manufacturing firms are considered cutting their workforce as they foresee zero growth in their operations. This represents 33 per cent percent of the over 1,000 manufacturing firms in the country. According to Kenya Association of Manufacturers only 240 manufacturers plan to take in more employees (KAM, 2018). The headwinds currently affecting the sector include high cost of raw materials, pressure from increased wages, decreased profitability, high energy prices and unhealthy competition from cheap imports.

Studies on downsizing and employee performance have been done locally and globally and have produced mixed results. Affum-Osei, Acquah, and Acheampong (2015), established the effects of downsizing on employee and organizational performance in Ghana. The study found that employees are normally ignored when taking downsizing decisions causes emotional and behavioral effects on both the downsized workers and the remaining employees.

Kwamboka and Nassiuma, (2017), aimed at establishing effects of employee downsizing strategies on firm performance in Kenya. The study concluded that employee separation has serious ramifications on firm performance. Mutonga (2016), studied the effect of downsizing on workforce quality among Commercial Banks in Kenya. The study found among other things that organizational downsizing undermines teamwork, reduces employee empowerment, and undercuts employee perceptions that their organization is committed to them and erodes employee commitment to quality workforce building. Studies have been done on the effect of downsizing but not on the

effect of different methods of downsizing. Therefore, the study focuses on filling in the gap by answering the question: What is the effect of different methods of downsizing on performance of retained employees of manufacturing firms of Nairobi?

1.3 Research Objective

To establish the effect of effect of different methods of downsizing on performance of retained employees of manufacturing firms of Nairobi

1.4 Value of the Study

The study findings will be of great value to the policy makers in the manufacturing industry in Nairobi, Kenya towards enhancing accountability as well as quality of performance of employees among the firms. It will help in making policies and improving guidelines on how to face downsizing of manufacturing firms in Nairobi, Kenya towards making them more effective in their roles and responsibilities. This may include issuing additional guidelines as well as formulating policies that may make the employees better in guiding the process of managing the manufacturing firms.

To the management of manufacturing firms in Nairobi, Kenya the findings are of great importance because the results of this study would act as a guide to the management of other industries, thus helping them to carry out downsizing without diluting the quality of the workforce left. It would therefore assist the management on how to about downsize without compromising on employee performance

This research is also important to academicians. It will contribute to the available literature in the downsizing and employee performance field. This study will act as an incentive for further studies to enhance and outspread the existing study particularly in

Kenya. The study results will be beneficial to scholars and researchers and as it will add to the existing body of knowledge in the manufacturing industry. It will also help other scholars to advance their research on areas that yet to be explored.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter sought to explore on the various theories as discussed by the various authors and scholars on downsizing and employee performance. It seeks to discuss on the various theories regarding downsizing and employee performance. The chapter focuses on empirical literature review. It also presents a summary of empirical review and research gap.

2.2 Theoretical Foundation

This section examines the various theories that were used to inform the study on the implications of downsizing and employee performance. The study was guided by the following theories; institutional theory, resource-based view theory and stakeholder's theory.

2.2.1 Institutional Theory

Institutional theory was introduced by North, (1990), Scott (1995). This theory is an extensively acknowledged theoretical posture that accentuates isomorphism, legitimacy and rational myths (Powell & DiMaggio, 2010). Institutional theory emphasis is on the profound and more robust social structure aspects. According to Scott (1995) this theory reflects the processes through which structures, such as routines, norms, and rules, are established as commanding guidelines that inform social behavior.

According to North, (1990), the ideal institutional framework is derived from his extensive research in economic history. Under this framework, property rights are protected, contracts are enforced and political authorities do not interfere

with the choices made by economic entrepreneurs. This framework enables markets to operate efficiently over time. North, (1990), noted that in order properly to evaluate institutions, it is essential to take into account their durability over time. An efficient institutional framework readily adapts to changing circumstances. Such a framework provides economic and political entrepreneurs with incentives that encourage decentralized decision-making, enabling society to maximize opportunities for resolving social problems and promoting successful economic change. Adaptively efficient institutions are thus a necessary condition for achieving successful economic change.

The theory is relevant to the study since institutional environment can strongly influence the operations in an organization which affects employee performance, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately these innovations reach a level of legitimization where failure to adopt them is seen as irrational and negligent. The institutional process does not hold only the establishment of strategy. According Chetty (2010), to the institutional process continues after the implementation of strategies, going until when the employees give value to the new practices.

2.2.2 Stakeholder Theory

The stakeholder theory was introduced in 1963 by Edward Freeman. Originally, the stakeholder concept was defined to include those persons who without their support a company would cease to exist (Donaldson, 1995). Stakeholder theory is business ethics and organizational management theory that addresses the values

and morals in organization management. A stakeholder analysis process was defined by Mansell (2014) as a process of giving insights into understanding of the interaction between stakeholder and a project. The stakeholder analysis is a tool that helps project members categorize and prioritize stakeholders who play an important role in project success.

The theory is important to the study because it shows that every legal person or group taking part in manufacturing firms, does so to get benefits, and that the priority of the interests of all legal stakeholders is not obvious (Mansell 2014). He further argues that, even though stakeholder theory is instrumental and descriptive, it is more profoundly normative. Stakeholders in manufacturing firms in Kenya are well-defined by their interests and all interests of stakeholders are said to be fundamentally valuable. Stakeholder theory is managerial and can be used to recommend attitudes, structures, and practices in the firms and needs that coinciding attention be accorded to the interests of all authorized stakeholders.

2.2.3 Resource-based View

The resource-based view (RBV) was introduced by Wernerfelt (1984). It proposes that competitiveness can only be attained by innovatively giving high value to consumers. RBV refers to the contention that all organizations are a collection of unique capabilities and resources. The exclusivity of any organization capabilities and resources is the foundation of an organization's strategy and its capability to get above average returns. Resources refers to inputs into a company's production process (Hitt, 2013).

The theory is pertinent to the study because it identifies economic resources that are likely to be important in downsizing process and measuring the performance of the remaining employees. Resource-based theory predicts resources are important to the manufacturing firms in Kenya and its performance. It further details the premise that the economic resources effects will be more important determinants of performance in the sector by comparing outcomes across multiple levels of analysis (Pfeffer & Salancik, 2013).

The significance of the resource-based view (RBV) in this study is that it brings out management of resources which affects the downsizing effect to the remaining employees. Resources in manufacturing firms includes physical, financial, commercial, human, organizational, and technological assets used by companies to develop, manufacture, and deliver services and products to its customers. According to Cocks (2010) they may be categorized as tangible or intangible.

2.3 Empirical Review

Kapoor, (2017), in India studied employee attrition and employee satisfaction in defense public sector. The research concentrated on the relationship between designation level and the hiring practices as well as performance appraisal and training practices.

Researcher also investigated the correlations among hiring practices, performance appraisal and training practices, satisfaction level of the executives and reasons of attrition. The study found that In Defence PSUs in India, because of comfort and job security of government job and post-retirement benefits generally employees prefer to stick to the same work and

work location. The study only focused on the employee satisfaction. The study ought to have related employee attrition and performance of the firms.

Sheaffer and Carmeli (2015), in a study in Australia described employee attrition as a gradual but deliberate reduction in staff numbers that occurs as employees retire or resign and are not replaced. The term is also sometimes used to describe the loss of customers or clients as they mature beyond a product or company's target market without being replaced by a younger generation. Ghansah (2017) in Ghana on a study on influence of employee attrition on job performance found that reducing staff by attrition naturally is less devastating to company morale. However, it can still have a negative impact on the remaining employees if it leads to an increase in their workload. It also can limit promotional opportunities and movement within the company, resulting in an unhappier workplace or more attrition than was intended. Changes in management, company structure, or other aspects of a company's operations can cause employees to leave voluntarily, resulting in a higher attrition rate.

Dwomoh, Kusi, and Agyeman, (2016), assessed voluntary turnover and its effect on employees' performance: evidence from Coca Cola Ghana Limited. Results of the study through the questionnaires obtained from the employees showed that involuntary turnover has positive effect on employees' performance as it changes the behaviour of existing employees since they do not want to fall into the same trap as their colleagues whose contract of employment were terminated by the organization. The study did not bring out a clear relationship between the voluntary turnover and performance of employees Gialuisi, (2016), did an exploratory investigation into voluntary

employee turnover and retention practices in the small business sector. The findings revealed that voluntary turnover of key employees have a number of adverse consequences for small businesses. A lack of financial resources to retain staff and limited long term career prospects, amongst other factors, were identified as common reasons for actual and intended turnover amongst key employees.

Bonsdorff, (2016) in France researched on early retirement and continuation to work among middle-aged and older employees of manufacturing firms. The study found that Good perceived health, good work ability and positive work related psychological factors, such as the absence of negative perceptions about work, reward satisfaction, and high job control and job satisfaction are significantly associated with employee intentions to continue working instead of retiring early. The study only focused on the responses of the old employees instead of looking at all age categories.

Yazici (2016) on employee performance in India revealed that on a study on influence of employee attrition on job performance found that reducing staff by attrition naturally is less devastating to company morale. However, it can still have a negative impact on the remaining employees if it leads to an increase in their workload. It also can limit promotional opportunities and movement within the company, resulting in an unhappier workplace or more attrition than was intended. Changes in management, company structure, or other aspects of a company's operations can cause employees to leave voluntarily, resulting in a higher

attrition rate. The study did not bring out the effect of attrition on the job performance of staff, it only compared attrition to employee morale.

2.4 Conceptual Framework

A conceptual framework is a diagrammatical presentation of variables in a research. The framework demonstrates the correlation between variables that are dependent and those that are independent (Regoniel, 2015). The independent variables for the study are employee attrition, voluntary termination, early-retirement incentives, and compulsory termination while the dependent variable is the employee performance.

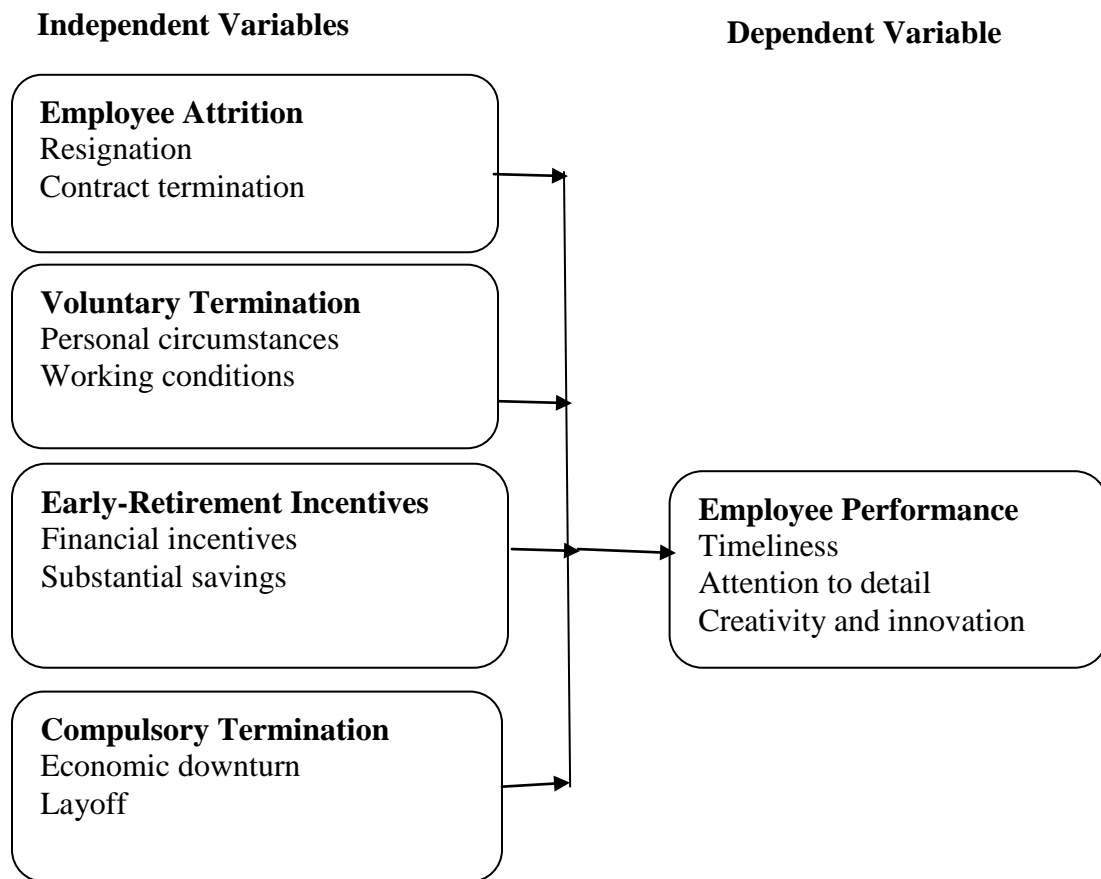


Figure 2.1: Conceptual Framework (Research, 2019)

2.5 Summary of Literature Review and Research Gap

The studies have discussed the effects of downsizing on employee performance. Munoz-Bullon and Sanchez-Bueno (2013), found that reduction in the number of employee does not necessarily have a significant positive effect on performance of the organization. On the other hand, Affum-Osei, and Acheampong (2015), found that downsizing has a significant negative relationship between employee and organizational performance. Friebel, Heinz, and Zubanov (2016), found that announcement of discontinuation of employees results in a drop in sales on average. Itunga (2017), found that downsizing affects employees' performance to a greatest extent and committed employee is loyal and supports the organization in turbulent times.

The studies did not incorporate and relate employee performance and downsizing. The studies only focused on organizational performance. The studies were also just conducted in industries with mainly white-collar jobs which mainly have skilled and highly skilled workforce. The manufacturing industry consists mainly of blue-collar employees who are mainly semi-skilled and skilled. Therefore, the current study aims at bridging the gap by relating and establishing the effects of employee attrition, voluntary termination, early-retirement incentives and compulsory termination on retained employee performance in the manufacturing industry.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of research methodology that was used in this study. It presents research design, target population, sample data collection and data analysis and presentation.

3.2 Research Design

The function of a research design is to ensure that the data obtained is adequate for answering the research question(s) as unambiguously as possible (Creswell & Clark, 2007). According to Kothari (2004), a good research design must yield maximum information and provide an opportunity for considering many different aspects of the problem. The nature and the context of the study determine a research design since a good design for a one study might be inappropriate for another study.

This study employed descriptive research design, and this allowed the research to describe the variables of interest in terms of their characteristics. The design is suited and justified for use in this study because of the variables that were used. The advantage of conducting descriptive design is that they are valuable in defining the specific features of an outsized population and high consistency which guarantees that the observer bias is greatly eradicated and it's easy to attain by presenting all subjects with a regular inducement (Mugenda & Mugenda, 2011).

3.3 Target Population

According to Kothari (2014), target population is the total collection of units to which the results of the study are expected to apply. Units could be organizations, individuals or even events.

This study focused on 38 manufacturing firms which have downsized in the last 3 years in Nairobi and are registered by Kenya Association of Manufacturers (KAM, 2018). All 38 firms were studied, thus making this a census study.

3.4 Data collection

Structured questionnaire were used to collect the primary data. The questionnaires were self-administered to the respondents using drop and pick later approach. The respondents were the human resource managers of the respective firms. A semi-structured questionnaire was used. It allowed uniformity in the manner in which questions were asked, guaranteeing comparability in the responses. Brotherton (2008) indicated that the use of structured questionnaires permits consistency of responses to questionnaires while unstructured questions provide a participant freedom in responding to questions, thus avoiding researcher bias. The structured questions were in form of a five-point Likert scale, where respondents were required to give their ratings on a scale of 1 to 5, where 1 represented to a small extent and 5 to a very great extent. The questionnaire was divided into three parts comprising demographics, downsizing and employee performance.

3.5 Data Analysis

This study used descriptive statistics to summarize the collected data and included standard deviation, frequency and mean. The effect of downsizing mode on the performance of surviving employees tested using multiple regression analysis. Data was presented in tables and charts. Quantitative data was analyzed using the SPSS version 23 and used the multiple regression models

The study applied the following regression model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where Y = Employee Performance

X₁ = Employee Attrition

X₂ = Voluntary Termination

X₃ = Early-Retirement Incentives (ERI)

X₄ = Compulsory Termination

B₁– β₄ are the regression coefficients

e is the random error term.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter contains data analysis, results of the analysis and their interpretations and discussions. Descriptive statistics and inferential statistics were generated from data analysis.

4.1.1 Response Rate

The study targeted a sample of 38 respondents out of which 35 filled in and returned the questionnaires, making a response rate of 92.1 % as shown in table 4.1. Mugenda and Mugenda (2003) assert that response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and above is excellent. Based on the assertion, the response rate achieved in this study was considered to excellent.

Table 4.1: Response Rate

Response	Frequency	Percentage
Responded	35	92.1
Not responded	3	7.9
Total	38	100.0

Source: Research data, (2020)

4.2 Demographic Information

In this section, information related to the participants' demographics is presented in form of gender distribution, academic qualifications and years of work as human resource specialist.

4.2.1 Distribution of the Respondents by Gender

Respondents were asked to indicate their gender group. This was necessary to ensure fair involvement of both male and female participants in this research. The results are presented in subsequent table 4.2.

Table 4.2: Gender Composition of the respondents.

Category	Frequency	Percentage
Male	22	62.9
Female	13	37.1
Total	35	100.0

Out 35 participants who took part in this survey 22 (62.9%) were male while the rest (37.1%) were female, implying that HR positions in most of the organizations are mostly occupied by males. these findings raise the question on extent to which organizations had implemented one third gender rules as a constitutional requirement.

4.2.2 Period of Service in the firm

It was necessary to first establish the participants' experience in the firm to show whether they witnessed downsizing undertaken by the firm in the same practice.

Table 4.3: Period of Service

	Frequency	Percentage
Less than 2 years	4	11.4
2 to 4 years	6	17.1
5 to 8 years	11	31.4
More than 8 years	14	40.0
Total	35	100.0

From the study findings in table 4.3, it's evident that most (14 or 40.0%) of the respondents had more than 8 years in the firm, (11 or 31.4%) indicated 5 to 8 years, (6 or

17.1%) indicated 2 to 4 years while (4 or 11.4%) had more than less than 2 years. This implies that the possibly of getting quality information was high.

4.2.3 Highest level of Education.

The respondents were required to provide information on their highest level of education.

The responses are summarised in table 4.4.

Table 4.4: Composition of the Respondents by Highest level of Education.

	frequency	percentage
College Diploma	10	28.6
Undergraduate	15	42.9
Master	10	28.6
Total	35	100.0

Based on the results as displayed in table 4.4, 15 (42.9%) participants had bachelor's degree while 28.6% had either college diploma or master's degree. This means that all the participants were literate and therefore they were in a position to comprehend research subject and respond appropriately to questions without assistance.

4.3 Methods of Downsizing

4.3.1 Voluntary and Involuntary Attrition

The study inquired on the extent to which organization utilized both voluntary and involuntary attrition methods of downsizing.

Table 4.5: Voluntary and Involuntary Attrition Methods of Downsizing

practice	N	Mean	Std Dev
Hiring Freeze	35	4.14	0.73
Mandatory vacation	35	4.00	0.73
Reduced work week	35	4.46	0.56
Cut in over time	35	4.29	0.75
Salary reduction	35	4.40	0.60
Temporary facilities shut down	35	3.94	0.80
Compulsory termination	35	4.14	0.69
Exit incentives	35	4.40	0.65
Voluntary sabbaticals	35	4.23	0.69
Voluntary termination	35	4.29	0.79
Employees leave upon communication of impending layoffs	35	4.43	0.65

Majority of the participants indicated that the organisation embraced reduced work week (M=4.46 SD=0.56), which implies that the HR managers developed programs whereby some employees reported on work only on specific days in a week, further, on some occasions employees were given time leave upon communication of impending layoffs (M=4.43 SD=0.65) .It was also found that some organizations used salary reductions and exit incentives (M=4.40 SD=0.60) to convince employees to accept the layoff decision. Similar observations were made by Sheaffer in his study (2015) that laying off staff would lead to a decrease in overhead costs associated with payroll, insurance and other benefits.

Other measures embraced included suspension of overtime and voluntary termination of employment (M=4.29 SD=0.79), as well as suspension of overtime work. This was a

strategic move that targeted demoralised employees opting to leave the company on their own. Again, most of the firms encouraged employees who were willing to leave voluntarily to do so. This mostly targeted those who were almost retiring. Voluntary sabbaticals (M=4.23 SD=0.69) was another form of downsizing for those willing to pursue personal goals such as further education.

Results also show that some of the employees who failed to reach or attain their performance goals were given compulsory termination (M= 4.14). Also where necessary the organisation stopped unnecessary hiring of short-term contract employees (hiring freeze M= 4.14 SD=0.73), and in instances where an employee grossly violated organizational policies a mandatory leave was given(M=4.00 SD=0.73). In rare cases some organizations temporarily shut down (M=3.94 SD=0.80).

4.3.2 Early-Retirement Incentives (ERI)

Respondents were asked to provide information on the extent to which incentives were used to encourage voluntary early retirement. The findings are in table 4.6.

Table 4.6: Extent of Use of Early-Retirement Incentives (ERI)

	N	Mean	Std Dev
The firm compensates for early retirement	35	4.03	0.82
Retirement age is reduced	35	4.46	0.61
Firm gives early retirement incentives	35	4.43	0.61
Compulsory early retirement	35	3.97	0.82

Table 4.6 shows that most of the participants, agreed that the firms opted to reduce retirement age for its employees (M=4.46 SD=0.61) in order to reduce the cost of payroll,

results also show that most of the firms gave early retirement incentives ($M=4.43$ $SD=0.61$). These incentives were encouraged mostly to employees who were above their fifties, or employees who were suffering from health problems and those who wished to take early retirement voluntarily.

Also majority agreed that considerable number of firms compensated for early retirement ($M=4.03$ $SD=0.82$), thought this was to bring some positivity in HR performance, results show that this was implemented in view preserving organizational reputation and avoid legal cost if in case the layoff employees raised the matter before labour court. Results also show that organizations encouraged compulsory early retirement ($M=3.97$ $SD=0.82$) participants elaborated that compulsory early was only encouraged in circumstances where projections show that long run effect of keeping the employee would result to ultimate consecutive losses. These findings go hand in hand with research conclusions by Bonsdorff, (2016) Good perceived health, good work ability and positive work-related psychological factors, such as the absence of negative perceptions about work, reward satisfaction, and high job control and job satisfaction are significantly associated with employee intentions to continue working instead of retiring early

4.3.3 Employee Performance Before Downsizing

The study sought to determine the extent to which participants agreed with each of the following statements relating to employee performance applies before downsizing.

Table 4.7: Employee Performance Before Downsizing

	N	Mean	Std Dev
Employee morale is high	35	1.31	0.63
Employee turnover is low	35	1.46	0.70
Employee commitment to work	35	1.71	0.75
Quality of work is good	35	1.80	0.68
Level of creativity is high	35	1.86	0.73
Customer and peer feedback on employees is good	35	2.11	0.76
Commitment to the Organization is high	35	1.69	0.68
Valid N (listwise)	35		

Results show that employee morale before implementation of downsizing measures was generally low ($M=1.31SD=0.70$) this is concurrent with the high employee turnover as reported. ($M=1.46 SD=0.70$) in other words, employees were leaving organizations for better employment, this usually happens where employees' needs are not adequately met, however excess pool of employees may also occasion such a situation where employees develop lack of job security. Participants also reported that most of the employees showed low level on organizational commitment ($M= 1.69 SD=0.68$). This implies that most of the organizations were unable to attain quality productivity and thus unable to attain the overall strategic goals.

Evidence presented further show low levels of job commitment by employees ($M=1.71 SD=0.75$) in their opinion this led to great compromise on overall quality of work done

(M=1.80 SD=0.68), results also show that employees in most of the firms had low levels creativity (M= 1.86 SD=0.73), this also translates lack of innovativeness and unwillingness by employees to take up autonomy and responsibility on tasks assigned. Consequently this led to most of the organisation registering poor peer feedback from customers surveys done regarding employees service (M=2.11 SD=0.76) Similar observation were made by Dwomoh, Kusi, and Agyeman, (2016), Overstaffing can occasion risk of employee boredom at workplace, this creates production errors because of inattentiveness.

4.3.4 Employee Performance After Downsizing.

Further the study sought to determine the extent to which participants agreed with each of the each of the following statements relating to employee performance applies after downsizing

Table 4.8: Employee Performance

	N	Mean	Std Dev
Employee Morale is high	35	4.11	0.80
Employee turnover is low	35	4.23	0.73
Employee commitment to work	35	4.29	0.71
Quality of work is good	35	4.23	0.84
Level of creativity is high	35	4.26	0.78
Customer and peer feedback on employees is good	35	4.17	0.82
Commitment to the Organization is high	35	4.26	0.78

Assessment on employees conduct after implementation of downsizing measures showed that employee commitment to work increased significantly (M=4.29 SD=0.71), again majority of the employees demonstrated high creativity level in job execution as well as total commitment on organisational goals (M=4.26 SD=0.78) this also meant less supervision on employees, more determination to learn and willing ness to take job responsibility. Again it results show that that after implementation of layoff measures employee turnover decreased. Similar conclusion were made by Feldman, (2012) in an occasion where layoff is driven by an employee's lack of performance, poor attitude, any other subsequent layoff may enhance productivity and productivity in the workplace

Participants also indicated that implementation of downsizing measures led to quality of output and decreased employee turnover rate (M= 4.23) this implies efficient productivity and optimal use of organizational resources, also results show that customer and peer feedback on employees also improved (M= 4.17 SD=0.82) other positive scores were

recorded on Employee Morale (M=4.11 SD=0.80). These findings support the research conclusions by Feldman (2012), if the downsizing plan is founded on profits, and then it may improve employee enthusiasm and productivity.

4.4. Method of Downsizing and Employee Performance

Multiple regression analysis was used to test the influence of methods of downsizing on employee performance. The results are presented in tables 4.9, 4.10 and 4.11.

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.740 ^a	.547	.487	.34380

Table 4.9 shows that the R-square for the model was 0.547. This implies that different methods of downsizing account for 54.7% of the variation in on performance of retained employees of manufacturing firms of Nairobi. Additionally, the coefficient suggests that other factors account for 45.3% of the variation in performance of retained employees of manufacturing firms of Nairobi.

The next part of the regression analysis involved computing the ANOVA.

The ANOVA was generated to confirm whether the regression model was statistically significant and is fit for testing the hypothesis of Nairobi. Table 4.10 displays the results of the ANOVA.

Table 4.10: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4.281	4	1.070	9.055	.001 ^b
Residual	3.546	30	.118		
Total	7.827	34			

Critical value = 4.49

From the ANOVA statics in table 4.10, the study established the regression model was significant at $F = 9.055$, $P < 0.0005$, regression model was appropriate for the data.

Regression coefficients are presented in the table 4.11 below.

Table 4.11: Coefficients^a

Model	Unstandardized		Standardized		t	Sig.
	Coefficients		Coefficients			
	B	Std. Error	Beta			
1 (Constant)	2.122	.593			3.576	.001
Employee attrition	.529	.171	.395		3.103	.004
Voluntary termination	.434	.176	.306		2.458	.020
Early-retirement incentives	.490	.179	.353		2.735	.010
Compulsory termination	-.128	.042	-.399		-3.024	.005

The findings in the table imply that holding the (employee attrition, voluntary termination, early-retirement incentives and compulsory termination) at constant, the performance of retained employees of manufacturing firms of Nairobi would remain at 2.122. Additionally, unit change in employee attrition while holding other factors constant would enhance employee performance by a factor of 0.529. These findings concur with Kapoor, (2017) Laying off employees presents an opportunity for the company to hire new productive quality staff at lower-cost or provide better recognition to high-performing employees. Results show that a unit change in voluntary termination while holding the other factors constant would enhance employee performance by a factor of 0.434, These findings goes hand in hand with assertion by Feldman, (2012) that in an occasion where layoff is driven by an employee's lack of performance, poor attitude, any other subsequent layoff may enhance productivity and productivity in the workplace.

Results show that a unit change in early-retirement incentives while holding other factors constant would enhance employee performance by a factor of 0.490. These findings concur with research conclusions by Huselid (2015), retirement benefits in some occasion give an organisation a fresh chance to recruit more energetic productive staff. Finally the results show that unit change in compulsory termination while holding the other factors constant would negatively affect employee performance by a factor of -0.128, these findings concur with the study findings¹ by Mone, (2015) Laying off staff can create a work environment characterized with uncertainty for employee who remain behind.

4.5 Discussion

The findings indicated that the organisation embraced reduced work week ,this implies that the HR managers developed programs (developed depending on other workload parameters) whereby some employees reported on work only on specific days in a week, again respondents indicated that in some occasions were employees given time leave upon communication of impending layoffs and that some organizations used salary reductions and exit incentives in effort to convince employees accept the layoff decision. Similar observations were made by Sheaffer (2015) that laying off staff will automatically lead to a decrease in overhead costs associated with payroll, insurance and benefits.

The findings revealed that other measures embraced included cut in overtime and voluntary termination, in this case organization for some time abolished overtime work. This was a strategic move that targeted demoralised employees opting that they will leave the company. Again, most of the firms also encouraged employees who were willing to

leave voluntarily. this was mostly encouraged to those who were almost reaching to their retirement age. Employers also encouraged voluntary sabbaticals for those willing to pursue personal goals such as further education. According to Kapoor, (2017) Laying off employees presents an opportunity for the company to hire new productive quality staff at lower-cost or provide better recognition to high-performing employees.

Results also show that some of the employees who failed to reach or attain their set contract performance goals in were given compulsory termination where necessary the organisation stopped unnecessary hiring of short-term contract employees in instances where an employee grossly violated of organizational policies a mandatory vacation issues and that under rare organization's some organization temporary facilities shut down. This measure concurs with the assertion by Ghansah (2017) downsizing can help firms that are struggling to re gain better control over its finances and thus sustainability.

Further the findings revealed that the firms opted to reduce retirement age for its employees this was meant in view cutting down cost incurred through excessive labor, results also show most of the firms gave early retirement incentives . These incentives were encouraged mostly to employees who were above their fifties, employees with suffering from healthy problems and those who wished would take early retirement on voluntary. Also majority agreed that considerable number of firms compensated for early retirement , thought this was to bring some positivity in employee performance, results show that this was implemented in view preserving organizational reputation and avoid legal cost if incase the layoff employees raised the matter before labour court.

Results also show that organizations encouraged compulsory early retirement participants elaborated that compulsory early was only encouraged in circumstances

where projections show that long run effect of keeping the employee would result to ultimate consecutive losses. These findings go hand in hand with research conclusions by Bonsdorff, (2016) Good perceived health, good work ability and positive work-related psychological factors, such as the absence of negative perceptions about work, reward satisfaction, and high job control and job satisfaction are significantly associated with employee intentions to continue working instead of retiring early

Results show that employee turnover before implementation of retrenchment measures the Employee was generally low this was too concurrent with high employee turnover as reported. Employees were leaving organizations for better employment, this usually happens where employees need not adequately met, however excess pool of employees may also occasion such a situation where employees develop lack job security. Participants also reported that most of the employees showed low level on organizational commitment. This implies that most of the organizations were unable to attain quality productivity and thus unable to attain the overall strategic goals.

Evidence presented further show low levels of job commitment by employees in their opinion this led to grater compromise on overall quality of work done, results also show that employees in most of the employees had low levels creativity, this also translates lack of innovativeness and unwillingness by employees to take up autonomy and responsibility on tasks assigned. Consequently this led to most of the organisation registering poor peer feedback from customers surveys done regarding employees service. Similar observations were made by Dwomoh, Kusi, and Agyeman, (2016), overstaffing

can occasion risk of employee boredom at workplace, this creates production errors because of inattentiveness.

Assessment on employees conducted after implementation of downsizing measures showed that employee commitment to work increased significantly, again majority of the employees demonstrated high creativity level in job execution as well as total commitment on organisational goals this also meant less supervision on employees, more determination to learn and willingness to take job responsibility. Again, it results show that that after implementation of layoff measures employee turnover decreased. Similar conclusions were made by Feldman, (2012) in an occasion where layoff is driven by an employee's lack of performance, poor attitude, any other subsequent layoff may enhance productivity and productivity in the workplace.

Participants also indicated that implementation of downsizing measures led to quality of output and decreased employee turnover rate this implies efficient productivity and optimal use of organizational resources, also results show that customer and peer feedback on employees also improved other positive scores were recorded on Employee Morale. These findings support the research conclusions by Feldman (2012), if the downsizing plan is founded on profits, and then it may improve employee enthusiasm and productivity.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

This chapter presents the study summary, conclusions and recommendations based on the study findings. The objectives of this study endeavored to establish the effects of different methods of downsizing on performance of retained employees of manufacturing firms of Nairobi.

5.2 Summary

5.2.1 Voluntary and Involuntary Attrition

Manufacturing firms of Nairobi in embraced reduced work week, this implies that the HR managers of firms studied developed programs whereby some employees reported to work only on specific days in a week, also respondents indicated that in some occasions were employees given time leave upon communication of impending layoffs and that some organizations used salary reductions and exit incentives in effort to convince employees accept the layoff decision. Similar observations were made by Sheaffer (2015) that laying off staff will automatically lead to a decrease in overhead costs associated with payroll, insurance and benefits.

Other measures embraced included reduction in overtime and voluntary termination, in this case organization for some time abolished overtime work. This was a strategic move that targeted demoralised employees opting that they will leave the company. Again, most of the firms also encouraged employees who were willing to leave voluntarily. This was mostly encouraged to those who were almost reaching to their retirement age. Also,

employers encouraged voluntary sabbaticals for those willing to pursue personal goals such as to further their education.

Results also show that some of the employees who failed to reach or attain their performance goals in were given compulsory termination where necessary the organisation stopped unnecessary hiring of short-term contract employees (hiring freeze), in instances where an employee grossly violated of organizations' policies a compulsory leave was given and that in rare instances some organizations temporarily shut down facilities.

5.2.2 Early-Retirement Incentives (ERI)

Results show that firms opted to reduce retirement age for its employees, this was meant in view cutting down cost incurred through excessive labor, results also show most of the firms gave early retirement incentives. These incentives were encouraged mostly to employees who were above their fifties, employees suffering from health problems and those who wished to take early retirement voluntarily.

Also majority agreed that considerable number of manufacturing firms in Nairobi compensated for early retirement, this was to bring some positivity in retained employees performance, results show that this was implemented in view preserving organizational reputation and avoid legal cost if incase the layoff employees raised the matter before labour court. Results also show that organizations encouraged compulsory early retirement, respondents elaborated that compulsory early was only encouraged in circumstances where projections show that long run effect of keeping the employees would result to ultimate losses. These findings go hand in hand with research conclusions

by Bonsdorff, (2016) Good perceived health, good work ability and positive work-related psychological factors, such as the absence of negative perceptions about work, reward satisfaction, and high job control and job satisfaction are significantly associated with employee intentions to continue working instead of retiring early

5.2.3 Employee Performance before Downsizing.

Results show that employee turnover before implementation of retrenchment measures by manufacturing firms in Nairobi was generally high, in other words, employees were leaving organizations for better employment, this usually happens where employees needs not adequately met, however excess pool of employees may also occasion such a situation where employees develop lack job security. Results show that most of the employees showed low level on organizational commitment. This implies that most of the organizations were unable to attain quality productivity and thus unable to attain the overall strategic goals.

Evidence presented further show low levels of job commitment by employees, in their opinion this led to great compromise on overall quality of work done, results also show that employees in most of the employees had low levels creativity; this also translates lack of innovativeness and unwillingness by employees to take up autonomy and responsibility on tasks assigned. Consequently, this led to most of the organisation registering poor feedback from customers' surveys done regarding employees service. Similar observation was made by Dwomoh, Kusi, and Agyeman, (2016), Overstaffing can occasion risk of employee boredom at workplace and this creates production errors because of inattentiveness.

5.2.4 Employee Performance After Downsizing

Assessment on employees conduct after implementation of downsizing measures showed that employee commitment to work increased significantly, again majority of the employees demonstrated high creativity level in job execution as well as total commitment on organisational goals, this also meant less supervision on employees, more determination to learn and willing ness to take job responsibility. Again, it results show that that after implementation of layoff measures employee turnover decreased. Similar conclusion was made by Feldman, (2012) in an occasion where layoff is driven by an employee's lack of performance, poor attitude, any other subsequent layoff may enhance productivity and productivity in the workplace.

Participants also indicated that implementation of downsizing measures led to quality of output and decreased employee turnover rate, this implies efficient productivity and optimal use of organizational resources, also results show that customer and peer feedback on employees also improved, and other positive scores were recorded on employee morale. These findings support the research conclusions by Feldman (2012), if the downsizing plan is founded on profits, and then it may improve employee enthusiasm and productivity.

5.3 Conclusions

Based on the study findings;

The study concludes that both voluntary and involuntary attrition methods of downsizing all have significant effects on employee performance. Most of the manufacturing organizations encouraged early retirement of employees suffering from health problems. Early retirement in some occasion presented an opportunity to the manufacturing firms to recruit more energetic productive staff. Before implementation of retrenchment measures the employee productivity morale and creativity was generally low, manufacturing firms experienced high turnover and low quality of work. Most of the organizations were unable to attain quality productivity and thus unable to attain the overall strategic goals

The study concludes that after implementation of downsizing measures employees demonstrated high creativity level in job execution as well as total commitment on organisational goals, also employees demonstrated high creativity level in job execution as well as total commitment on organisational goals. Implementation of downsizing measures led to quality of output and decreased employee turnover rate. From the findings of the study it can be concluded that compulsory termination led to a decrease in employee performance while employee attrition, voluntary termination and early retirement incentives led to increased employee performance

5.4 Recommendations

Layoffs must be communicated clearly to employees and should be well communicated. grate care must be exercised before implementation of such policies. Before implementation of lay off measures, manufacturing companies must have an elaborate

operational plan that is predictable effective and safe in the long term. It is imperative for the manufacturing companies to develop their own effective means to communicate so as to ensure best results of its implementation. Human resources managers should design policies that are more appropriate to employees who leave the organization and those who stay at work, decreasing the negative psychological, administrative and economic consequences.

5.5 Recommendations for further studies

The study investigated the effect of different methods of downsizing on performance of retained employees of manufacturing firms of Nairobi. It is important to study reasons behind success or failure of downsizing and early retirement to understand whether such strategies are beneficial and how to implement them effectively.

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APPENDICES

Appendix I: Introduction Letter



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14th September, 2020

TO WHOM IT MAY CONCERN

INTRODUCTORY LETTER FOR RESEARCH
SAMUEL TSINJENGA ALUMIRA – REGISTRATION NO. D61/7547/2017

The above named is a *bona fide* continuing student in the Master of Business Administration(MBA) program at the University of Nairobi, School of Business.

He is required to submit as part of his coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, kindly request you to assist and facilitate the student with necessary data from your organization. The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**.

Your assistance will be highly appreciated.

Thank you



JOYCE OMBATI
FOR: DEAN, SCHOOL OF BUSINESS

Appendix II: Research Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

1. Indicate the employee's job title

.....

2. Kindly indicate the employee's gender

Male () Female ()

3. Indicate the employee's period of service in this firm

Less than 2 years ()

2 to 5 years ()

5 to 8 years ()

More than 8 years ()

4. Please indicate the employee's highest level of education attained. (Tick as applicable)

College Diploma ()

Undergraduate ()

Master ()

Others (specify)

.....

SECTION B: Methods of Downsizing

Indicate the extent to which each of the following statements relating to methods of downsizing applies to you. Key Use a scale of 1-5, where (1= to a small extent, 2= to some extent, 3= to a moderate extent, 4= to a great extent and 5= to a very great extent)

Voluntary and Involuntary Attrition	1	2	3	4	5
Hiring Freeze					
Mandatory vacation					
Reduced work week					
Cut in over time					
Salary reduction					
Temporary facilities shut down					
Compulsory termination					
Exit incentives					
Voluntary sabbaticals					
Voluntary termination					
Employees leave upon communication of impending layoffs					

Indicate the extent to which each of the following statements relating to Early-Retirement Incentives (ERI) applies to you. Key Use a scale of 1-5, where (1= to a

small extent, 2= to some extent, 3= to a moderate extent, 4= to a great extent and 5= to a very great extent)

Early-Retirement Incentives (ERI)	1	2	3	4	5
The firm compensates for early retirement					
Retirement age is reduced					
Firm gives early retirement incentives					
Compulsory early retirement					

SECTION C: EMPLOYEE PERFORMANCE

Indicate the extent to which each of the following statements relating to employee performance applies to you before downsizing. Key Use a scale of 1-5, where (1= to a small extent, 2= to some extent, 3= to a moderate extent, 4= to a great extent and 5= to a very great extent)

Employee Performance	1	2	3	4	5
Employee Morale is high					
Employee turnover is low					
Employee commitment to work					
Quality of work is good					
Level of creativity is high					
Customer and peer feedback on employees is good					
Commitment to the Organization is high					

Indicate the extent to which each of the following statements relating to employee performance applies to you after downsizing. Key Use a scale of 1-5, where (1= to a small extent, 2= to some extent, 3= to a moderate extent, 4= to a great extent and 5= to a very great extent)

Employee Performance	1	2	3	4	5
Employee Morale is high					
Employee turnover is low					
Employee commitment to work					
Quality of work is good					
Level of creativity is high					
Customer and peer feedback on employees is good					
Commitment to the Organization is high					

Appendix III: Manufacturing Firms in Nairobi County

1. Africa Kaluworks
2. Alpha Fine Foods Ltd
3. Athi River Mining Ltd
4. Bidco Oil Refineries Limited
5. Biodeal laboratories ltd
6. Blue Triangle Cement
7. British American Tobacco Kenya Ltd
8. Brookside dairy ltd
9. Carbacid Investments
10. Chandaria Industries
11. Colgate-Palmolive (East Africa) Ltd
12. Cosmos Pharmaceutical Limited
13. Crown Paints Kenya PLC
14. East Africa Glassware Mart Ltd
15. East African Breweries Limited
16. East African Cables Ltd.
17. East African Portland cement
18. Eastern Chemical Industries Ltd
19. Eveready East Africa Limited
20. Excel Chemical Ltd
21. General motors
22. Kapa Oil Refineries Limited

23. Kenya Petroleum Refineries Ltd
24. Kenya Solar
25. Kenya Sweets Ltd
26. London Distillers Ltd
27. Magadi Soda
28. Mastermind Tobacco Kenya Limited
29. Nairobi bottlers
30. Olympia Capital Holdings
31. Polythene Industries Ltd
32. Pwani Oil products Limited
33. Rea Vipingo Sisal Estate
34. Sameer Group
35. Sasini group
36. Twiga Chemical Industries Ltd
37. Unga Group Ltd
38. Unilever Kenya Ltd