Effects of Retrenchment on Organizational Performance at the Telkom Kenya, Eldoret Branch

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Abstract
This paper examines the effect of retrenchment on organizational performance based on a study conducted at the Telkom Kenya, Eldoret Branch over a 5 year period. Telkom Kenya (TKL) started retrenching in May 2006 in preparation for privatization. By end of 2010, a total of 501 employees had been retrenched at Eldoret Telkom. This case study utilised questionnaire as a data collection tool to collect the information. Of the 99 employees targeted, only 50 were interviewed during the study. The data collected was analysed using both descriptive and inferential statistics. The study findings indicated a positive change at TKL with improved service delivery with introduction of new wireless technology and new brands that were competitive in the market in the Kenyan market. A general cultural change in work has been cited in these improvements. Company revenue trend analysis of documentaries indicated that TKL financial performance had generally grown on a fairly upward trend. The results from the study also revealed that the new TKL products had received a substantially good rating (76%) in the market compared to other products and services from competitors such as Safaricom and Airtel. TKL is now ranked as the 3rd in preference by the consumers coming after Safaricom and Airtel. Generally, while retrenchment may generally lead to improved organizational performance in the short-run it is recommended that organizations should first analyze the outcomes of retrenchment in all aspects of the company and the retrenches before embarking on its implementation.

Keywords: effect, retrenchment, retained employees, performance telkom Kenya, Eldoret branch.

INTRODUCTION
A careful examination of the factors influencing retrenchment indicates numerous dynamics within and surrounding organizations. These are common to most organizations and include Globalization, Deregulation, Mergers and Acquisitions, Technological change and increasing costs.

Globalization
The marketplace for many organizations has expanded from within a region to within a nation to the entire globe. In the past, economies were relatively isolated, with minimal impacts on national and regional economies. With globalization, a decline in one part of the world affects other world markets. This leads to redundancy of certain jobs, and divesting of operations. Secondly, some organizations are proactively retrenching as a result of their mergers, acquisitions, alliances, and joint ventures aimed at broadening their global reach (De Meuse & Marks, 2002).

Deregulation
With the introduction of structural adjustment programmes (SAPs) in most developing countries, governments chose to deregulate industries. Private entrepreneurs therefore looked for opportunities to reduce employee numbers and sometimes even close or sell off operations. As in the Kenyan case, the deregulation of the telecommunication industry led Telkom Kenya to respond by selling some of their shares to Telkom France and reducing head counts. Due to deregulation and privatization, most organizations have transferred ownership and operations of huge organizations from governments to private businesses (De Meuse & Marks, 2002). Predictably, this has led to redesigning of organization structures.

Technological Change
As technology continuous to enhance quality and efficiency in the workplace, organizations are taking advantage of new technologies to remain relevant in a competitive market. Advances in technology have led to developments in factory automation to information storage, and work reorganization to make it more efficient. Introduction of newer technologies have enabled greater production by fewer employees resulting in retrenchment. Information technology today is having a tremendous impact on middle management ranks.

As technology advances, the skills needed to keep pace with the hardware and software also changes (Wilkinson & Redman, 2009). In Telkom Kenya, technological changes rendered the organization
products uncompetitive for the existing volatile market leading a large number of employees leaving the organization.

**Increasing Business Costs**
Further burdening business leaders are increases in operating costs. In Kenya for instance energy costs - including gas, oil, and electricity are ever increasing. This increase is sometimes passed on to consumers in a stable economy. In a declining economy, management instead tends to look at ways to control current costs – or curtail future investments – rather than pass on raw material price increases. Consequently, jobs are cut or hiring is frozen, operations are closed, and some functions are outsourced, all in an attempt to enhance short-term cost efficiencies (De Meuse & Marks, 2002; Budros, 1999; Ravichandran, 2008).

**Mergers and Acquisitions**
In carefully planned and well-executed mergers between companies, various functions are rationalized. Thousands of jobs are eliminated as unessential operations are consolidated. Many units are scrapped as companies combine, either because they no longer fit into the strategic mix of the lead company or because they are seen as appeasements to get regulators to approve the deal. Sometimes enormous businesses are shed after acquisitions (Wilkinson & Redman, 2009; De Meuse & Marks, 2002).

**STATEMENT OF THE PROBLEM**
Although retrenchments are aimed at cutting costs, there is a general assumption that if companies retain the best employees and managers during retrenchment, the company should perform better. However, several retrenchment exercises in various organizations negate this thought. Some unexpected negative outcomes have drawn both theoretical and practical experts’ attention to the outcomes of retrenchment and the main questions involved in managing retrenchment.

Despite many countries and organizations adopting retrenchment as a management strategy, a bulk of retrenchment related literature is based on the results of studies conducted in the United States. Cascio (2005) examined the relationships between changes in employment and financial performance of organizations and concluded that there was no evidence to support the premise that retrenchment leads to improved financial performance as measured by return on asset (ROA).

Critics have cited results of retrenchments done during economic boom as different from retrenchments carried out during recessions. The study at TKL is a case in point for an African organization going through economic recession. In addition, results of other studies available indicated that a planned approach to the implementation process could lead to sustained and long-term benefits to the organization. In addition, previous studies were conducted between 2 and 3 years after retrenchments occurred.

This absence of substantial literature and the fact that few studies on effects of retrenchments in Africa have been carried out puts “retrenchment” as an important strategy that needs to be investigated further. This study therefore looks at a much longer period of 5 years in a local setup.

**The Effects of Retrenchment on the Organization**
The outcomes manifested on the organizational level comprise two main components:

1. The sum of all effects that individuals perceive
2. Changes affecting organizational features

The most typical objectives of retrenchment are: to improve performance and productivity, enhance competitive advantage, reduce costs, and improve quality. According to findings of studies examining changes in organizational performance and productivity (Cascio, 2002), improvement was observable in very few insignificant minority of cases; otherwise post-retrenched organizations did not accomplish any improvement, sometimes even decline in performance was experienced. What was most observed was a decline in organizational loyalty, job satisfaction, stress and increased incidences of health related complaints (Cameron, 1998). Organizational performance is also negatively influenced by the loss of organizational knowledge and memory possessed on the one hand by those who were retrenched and, on the other hand, by the survivors’ quitting in the post-retrenchment period of decreasing loyalty and job satisfaction. Usually those survivors who leave the organization voluntarily, from the organization’s point of view, possess more useful knowledge, thus organizations risk to lose key skills and experiences as well as valuable knowledge by inappropriately managing a retrenchment procedure (Krasz, 2004).

The shift from organizational to career loyalty is manifested in surviving employees focusing on the acquisition of marketable skills and seeking new job opportunities (Sheaffer et al., 2009). These employees tend to concentrate less on their tasks, neglect organizational objectives such as quality, product development, and so on. These finally lead to the stagnation or deterioration of organizational productivity.

Post-retrenched organizations are also characterized by the restructuring of the organization and work procedures, the elimination of certain fields of work.
and creating new ones. Such restructuring is more likely to negatively influence the operation of the organization if unnecessary tasks are inserted and if the new tasks are less interesting and offer less autonomy. Cameron (1998) lists the following negative outcomes of downsizing: centralization, absence of long-term planning, restriction of innovation, resistance to change, turnover of staff, decreased morale, loss of slack, the emergence of special interest groups, loss of credibility of top management, loss of key personnel and losing too many employees in general, retraining, employment of an increasing number of temporary workers, more overtime, and increased retiree health costs.

The image of the organization is also ruined by the mere fact it is retrenching. This would get even severe if victims are treated inappropriately. Negative image change might entail losing of certain markets, what then leads to decline in the organizations’ turnover. Therefore, proper communication of retrenchment to the outer world, and decent, satisfactory compensation for victims’ losses are inevitably for the organization.

However, positive outcomes of retrenchment were also identified on the organizational level. The major economic benefits being increased value to shareholders and reductions on general human costs. Further expected advantages of retrenchment are lower overheads, elimination of hierarchies, decreased bureaucracy, faster decision making, more fluent communication, flexible improving of the firm’s capability for development, more pronounced entrepreneurial behaviour, increased productivity and better earning (Cameron, 1998; Cascio, 2002).

An efficiency of retrenchment is envisioned as means of achieving positive organization performance back to a company by eliminating unnecessary work procedures and personnel, increasing competitiveness, re-energizing exhausted employees and producing clearer mission. Sheaffer et al. (2009) claims that the most significant consequence of retrenchment is related to the change of the organizational culture, not to short-term benefits or reduced costs. Retrenchment can also be viewed as a channel of changes in organizational culture. Being a necessary factor, retrenchment moves the organization from its current situation and is necessary to initiate organizational changes. The most important factors affecting organizational factors are as follows:

a) Power has shifted from the ranks towards the owners;
b) Working relationships have changed from being familiar to being more competitive;
c) The employer-employee relationship has moved from long-term and stable to short-term and contingent.

Changes in organizational culture are considered by several authors as an adjustment of the psychological contract. In the typical, traditional psychological contract employees offered commitment, conformity, and loyalty while employers, in return, offered security of employment, career prospects and development within the company and care in troubled periods (De Meuse, 2004). The new contract has been drawn up in a different way. Change is considered continuous. Against new criteria, opportunity for vertical grade promotion is lessened. Promotion is made available to literally everyone, not only for those who deserve it.

Changing the organizational culture and developing a new psychological contract are very time-consuming processes, where great effort is a must, and depend upon a great number of personal and organizational factors. Beside proper management of retrenchment and organizational features, the loss of organizational memory is also a factor in accomplishing the desirable change in organizational culture. Consequently, the disappearance of the organization’s old values, procedures and traits should be considered a positive outcome (Bhattacharyya & Chatterjee, 2005). Although retrenchment can thus initiate the change of organizational culture, certain studies pointed out that the uncertainty after retrenchment results in resistance to culture change amongst survivors. To sum up, retrenchment can make both positive and/or negative impacts on the organization. Thus, the identification of factors behind the diverse outcomes is of fundamental significance and importance.

Retrenchment and Organizational Performance
Although retrenchments have become standard managerial strategy in most organizations, their effectiveness in increasing organizational efficiency is unclear (De Meuse, 2004). Different theories are divided, and research findings inconsistent (Krasz, 2004). Subsequently, positive and negative results must be examined as the basis for a more comprehensive research question: when and under which conditions does downsizing improve business performance, and is the improvement sustainable?

It has been assumed that retrenchment reduces expenses and reorganizes processes ensuing in improved competitiveness and profitability (Cascio, 2002). Reorganization occurs when the purging of unnecessary organizational layers enables a focus on core capabilities and increased output (Krasz, 2004). A leaner hierarchy may also reduce unnecessary costs (Cameron, 1998). Therefore, positive organizational results are eventually expressed in the company’s economic performance.
The key reason for retrenchment is to reduce costs as management seeks to maximize efficiency (Cascio, 2002) and business objectives can be best achieved with fewer employees. Cascio advanced several strategies, particularly a cost leadership strategy which enables the organization to increase return on sales, or to increase market share through aggressive costing. Following staff reduction the company can transform the leaner cost structure into competitive advantage by increasing profitability or lowering prices, which will be expressed in increased market share. Companies that retrench expect to increase their value to their shareholders by either reducing costs or increasing revenues.

Management believes that future costs can be anticipated more than future revenues, and that wage expenses are fixed costs. Therefore, cutting costs through layoffs is a safe bet for increasing profitability, and consequently raising share value (Redman & Wilkinson, 2009). Additionally, shareholders are expected to react favourably to downsizing announcements although recently, Cameron (1998) has shown that retrenchment announcements have an overall negative effect on stock market prices. Nevertheless, cutbacks communicate streamlining and raise expectations of a future growth in profits. A positive response will be expressed in an increase in shareholder returns and should enhance the company’s attractiveness to investors (Cascio, 2002; De Meuse, 1994).

Most studies have focused on financial performance, because of the assumption that firm’s reason for existence is profit maximization. Because firms’ bottom line is their economic state and market position (Iqbal & Akhigbe, 1997), it is clear that the association between retrenchment and economic results is of major importance. Researchers have followed the differences between long and short-term results (Sheaffer et al., 2009). De Meuse, 2004 notes that retrenchment may improve performance in the short-run because dismissals reduce expenses. This improves profitability and liquidity indices, enabling industry dominance through a cost leadership strategy. Moreover, organizations benefit from an initial increase in output, as survivors work harder and more competitively in an attempt to keep their jobs (Krasz, 2004). Despite the improvement in liquidity, initial growth in output is short-term and accompanied by organizational behaviour changes including the survivor syndrome (Noe et al., 2006). Additionally, a cost leadership strategy may be erroneously emulated and applied in the wrong context.

Retrenchment and Financial Performance

Studies confirm that a positive correlation between retrenchment and financial performance and market response. Franz et al. (1995) argue that several measures of liquidity, operating activity, profitability and leverage improve following retrenchment. However, using a firm’s return on assets (ROA) and share returns as measures of financial performance, Cascio (2002) questioned whether retrenchment improved financial performance and what types of retrenchment worked best. The results of his study showed that organizations focusing on reducing headcount over physical assets actually saw a decline in their ROA from approximately 14 per cent to approximately 11 per cent, while stable employers had only a negligible decline in ROA. De Meuse and Marks (2003) noted that firms that had implemented retrenchment did not improve their performance during the year of retrenchment, the following year or two years later. In fact the results indicated that performance continued to decline following their layoff announcement at a greater degree than firms which had made no layoff announcements (De Meuse, 2004).

In many cases retrenchment realizes a direct saving in expenses but the significant cost is related to severance pay (Franz et al., 1995). Another argument against retrenchment relates to organizational results which include impairment of human resources costs. Workforce reductions are likely to weaken the overall value of human resource as the organization is left without the unique cluster of skills, competences and know-how accumulated overtime at high cost, which the organization may need in the future. Moreover, employees’ deteriorating motivation and alienation owing to survivors’ syndrome adversely affects performance (Redman & Wilkinson, 2009).

These negative results limit the economic and the expected strategic benefits. Supporting the inefficiency assumption, De Meuse (2004) reported that in retrenched organizations most of the financial indices deteriorate faster in the two years after the workforce reductions, compared to the two preceding years. Essentially, companies that merely retrench without reducing assets do not achieve a higher ROA than the industry average. This was later corroborated by Cascio (2002), who found no significant improvement in performance even when dismissals were accompanied by asset reduction. In the long run, share performances in retrenched organizations were found to be inferior.

LIMITATIONS OF THE STUDY

One of the limitations of the study was that the manager of the TKL Eldoret branch could not give some of the information that was considered confidential. Information on the financial performance for the last five years was not made available. In addition, necessary records on retrenchment implementation were not all availed. The records on the retrenchedes were considered closed and kept in the archives. This limited access of
the records affected the understanding of the researcher on practical application of retrenchment strategy. The analysis relied on the data from the respondents. The study targeted to interview all the employees but only did for 50 employees. Unavailability of respondents especially the managers who were the key informants as far as effects of retrenchment on efficiency and effectiveness is concerned limited the depth of the interviews with employees.

MATERIALS AND METHODS
The study sought to understand the relationship between retrenchment and organizational performance in Telkom Kenya, Eldoret Branch. The case study research design was chosen specifically for its usefulness in trying to test theoretical models by using them in real world situations. Telkom Kenya, Eldoret Branch has a population of 99 employees who make up the population for this study. This population consists of 3 strategic managers, 8 middle level managers and an operational staff of 88. In the study, a census was carried out due to the small population at the Telkom branch. Data gathered in the study was largely qualitative, with a little bit of quantitative. Tools used to collect data included questionnaires, interviews and company documentation review. Simple statistical tools were used in this study to analyze and interpret the data collected from the field. All the variables were defined and the SPSS statistical package was used for analysis. The researcher used both descriptive and inferential statistics to analyze the data.

RESULTS
Changes in Employees’ Work as a Result of the Reduction Strategy
Generally, the study established a greatly enhanced improvement in work performance after retrenchment and there was also a high work effort following the same layoff. Over 60% of the respondents cited the positive change in work effort and performance. From the comments made by respondents, the enhanced work performance was mostly attributed to:
- Pressure to meet targets
- Working extra hours to meet deadlines
- Autonomy in decision making
- Specialisation that was brought in by retrenchment has favoured performance because individuals are now conversant and fully responsible with what is under him/her.

Few respondents indicated fear of losing job and work overload as the reason towards the improved performance/work effort. This tends to suggests that the fear of being the next to lose job may make some individuals to work extra hard or even for more hours in a way of protecting oneself from being retrenched. However, this becomes the case when employees perceive retrenchment to be based on employee performance.

Phases of Retrenchment
Retrenchments by Telkom Kenya were done in phases. From the findings of the study, a representative 70% responded that 3 phases of the retrenchments had already been implemented. A minority 30% understood that 4 or 5 phases had been implemented.

From the majority response (70%), an average of 3 retrenchments had been carried out over the 5-years period with an estimated 16,000 employees layer-off. This shows that approximately 3,200 employees have been retrenched yearly in the entire country. Over 75% of the respondents pointed out that the major assistance given to retrenchees was financial pay off. However, only 40% agreed to timely payment of dues by the company after retrenchment.

Table 1: Benefits of the Retrenches after Retrenchment

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial payoff</td>
<td>38</td>
<td>76.0</td>
<td>76.0</td>
</tr>
<tr>
<td>Pre and post-retrenchment</td>
<td>2</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Counselling</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>All of the above</td>
<td>10</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100.0</td>
<td>100.0</td>
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Retrenchment and Levels of Managements
From this study, it was found out that the TKL retrenchments affected all levels of management. From a one-on-one interview of the top management of TKL Eldoret, it was established that 5 managers had joined and left the Eldoret branch within a 5-years period. The data below also indicates the number of employees of Eldoret branch who had suffered retrenchment within the 5 years.
Level of Participation of Employees in Retrenchment
Most of the employees (60%) responded that there was a moderate/average participation of employees in retrenchment decisions with an even distribution between those who saw a high and a low involvement. This suggests that the victims of the retrenchment were playing a recipient role with their fate being determined by the management. A Chi-square test done to establish the relationship between employee participation and level of management showed ($X^2 = 5.179, df = 8, p = 0.738 > p = 0.0.5$) that there is significance influence of employees’ participation and level of management suggesting that there was more involvement of the top and middle level management in decision making than the operational managers.

**DISCUSSION**
**Effects of Retrenchment on Employees’ Performance**
On average three retrenchment phases have already been implemented fully with some employees indicating that a fourth phase is already in place. A total of 501 employees had been retrenched at Eldoret Telkom up to 2010. It was established that the major assistance given to retrenched was financial pay off. However, payments of financial dues was found out to not be timely as indicated by a 40% of employees who agreed to timely payment of dues by the company after retrenchment. In spite of the noted delays in payment of dues there has not been witnessed any strike threats or lawsuits at the branch due to delayed pay for retrenched. This could be due to some arranged package-payment plan agreed upon between the retrenched and the company or lack of an advocating or liaising body for the retrenched. Solidarity through being member to trade unions could be used as a vehicle to push the management to implement some pending issues.

As indicated by the surviving employees, the improvement in work performance is attributed to specialization and freedom to set own performance targets by individuals in their various departments. This tends to agree with earlier studies that suggest that retrenchment can lead to lower overheads, elimination of hierarchies, decreased bureaucracy, faster decision making, more fluent communication, flexible improving of the firm’s capability for development, increased productivity and better earning (Cameron, 1998; Cascio, 2002).

Specialization as was established from the study has favoured performance because most individuals are now more conversant and fully responsible with what is under him/her. Pressure to meet targets and working extra hours to meet deadlines have also had a contribution to the improved performance. There has even been a case whereby technicians have been forced to carry out night duties due to the growing cases of cable vandalism of TKL products.

It was to a least extent that some employees suggested that the improved work performance was due to fear of being retrenched. Under this scenario, such worries could affect work performance negatively or positively. Those who think that retrenchment is based on performance will work harder and competitively so as to secure their job and this improves performance. On the other hand, those that think that retrenchment will follow them anyhow, could be demoralised and/or be tense at work. This affects the working environment and may even turn deviant among their colleagues just because of the uncertainty of whom next.

The Telkom Kenya retrenchments have also been observed to have led to an improvement in the performance of the company. The performance has however been a process with the initial stages after implementation of the first phases having been turbulent for the company. Documentaries indicate that despite the company continuously improving performance, Employee work effort has a contribution in this although there have been no new employments. This supports the employees’ response that generally in Telkom Kenya there is increased workload per employee.

The absence of law suits against the company following retrenchments could have favoured positive performance since as indicated in other findings, potential legal claims for wrongful dismissal or discrimination can hinder the performance of a firm (De Meuse et al., 2004). Despite retrenchment being determined by the management, the entry and exit of 5 new managers to the Eldoret branch during a 5-years period with 1 being forced out may be an indicator of the challenges a manager is also predisposed to under the current Telkom Kenya. There is always constant reshuffling done at the company especially at the top level management. These constant changes may in one way or the other affecting the achievement of long-term plans of the company. There has been an emphasis on relevance in one’s department with the best fit individuals being chosen for each section.

**CONCLUSION AND RECOMMENDATIONS**
This study was conducted to establish the relationship between retrenchment and organizational performance in Telkom Kenya. From the study conducted at the Eldoret Branch, it has been established that despite Telkom Kenya having laid-off over 16 000 employees since 2005, the company has witnessed an improvement in service delivery through the introduction of new brands and services that utilize the current technology. Relevance in the market and financial performance has also improved
although there are no available figures of profitability in the last 5 years. Company revenue trends analysis of documentaries indicates that TKL revenues have generally grown on a fairly upward trend. It is now ranked as the 3rd in preference by the consumers coming after Safaricom and Zain (now Airtel).

There was noted significant improvement in work performance, work effectiveness and efficiency among the employees following the retrenchments. Financial performance has been noted to have improved. This financial change may not have taken the company to the profit-making state but has managed to get it out of the loss making trend it had been witnessing before the retrenchments.

Nevertheless, the major driving force towards the improvement in performance could not be singled out because there were various responses to the same. On average, the change in the organization system to a more flexible, professional (specialization) and objective system contributed a larger percentage of the observed changes. This is in tandem to earlier findings that the efficiency of retrenchment is often conceived as means of bringing positive organizational performance back to a company by eliminating unnecessary work procedures and personnel, increasing competitiveness, re-energizing exhausted employees and producing clearer mission (Sheaffer et al., 2009). This suggests that the most significant consequence of retrenchment is related to the change of the organizational culture, not to short-term benefits or reduced costs.

A major contributor to the enhanced work performance could be identified from the study as pressure to meet targets and working long hours. The long-working hours was necessitated by the increasing work-load without new employments being done. When France Telkom took over the company, they were more interested in reducing the numbers hence there have been no new hiring of employees although there has been a high turn-over in the management. Shortage of staff was a factor identified in Eldoret branch.

The study did not analyze performance of the branch in relation to its proximity to a more urbanized and informed or less urbanized set-ups as this may influence the consumption of particular products or services offered by a firm. From the findings the employees could not correctly articulate the criteria used in retrenchment and the number of phases of the retrenchment. In addition, they confirmed that the induction was not carefully done. It is therefore important to ensure that employees at all levels are involved in the retrenchment process.

REFERENCES


