INFLUENCE OF METHOD OF SEPARATION ON THE PERFORMANCE OF THE SELECTED PARASTATALS IN KENYA

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ABSTRACT

Most organizations effect employee separation programme with an aim of improving productivity and performance, increase competitiveness, decrease costs and improve quality. However, a number of separation processes in several Parastatals have negated this position. Some unexpected undesirable results have attracted both theoretical and practical experts’ attention to the output of separation and the main questions involved in managing separation. The study sought to determine the influence of method of separation on the performance of the selected Parastatals in Kenya. The study analyzed six Parastatals in Kenya. Qualitative data was collected using questionnaires from 96 employees of the affected Parastatals. Regression analysis and independent t-test was used to analyze the data. A questionnaire was used to collect data from ninety six employees sampled through stratified random sampling. Linear regression and independent t-test were used to test the relationship between the independent and dependent variable. From the findings discussed above, the benefits of separation as envisioned in the structural adjustment programme are yet to be met by the affected Parastatals. Majority of Parastatals employed a mix of voluntary and involuntary methods of separation, the study finds no evidence of relationship between method of separation and organization performance. The study recommends that employers manage the separation strategy in such a way that it minimizes disadvantages, whereas employee separation may be desirable in instances where employees underperform or whose skills are not matched with the organization’s mandate or goals, managers should limit the turnover rate of employees and ensure key employees are retained in the organization. Further the new employers should undergo a thorough vetting to ensure organizations tap best talent that can be retained in the long run in the organization.

Key Words: Method of Separation, Performance, Parastatals
1. Introduction

Over the past decade, a number of developments have taken place in business management. The forces emanating from transformation of value chain, influence of the global economy, changing patterns of employment and changes in the organizational structure are among the salient developments in business management (Langat, 2006). These forces have forced organizations to evolve in order to survive in the ever changing turbulent environment. Huczynski and Buchanan (2007) argued that the turbulent environment presents multifaceted, complex and chaotic dimensions in businesses in affecting streams of initiatives affecting work and organization design, resources allocation, and systems and procedures in a continuous attempt to improve performance.

Despite the fact that many change programs require cultural change and need to be transformational, there are circumstances where the emphasis has to be on rapid reconstruction where, in its absence, a business could face closure, enter terminal decline or be taken over. This is commonly referred to as a turnaround strategy, where the emphasis is on speed of change and rapid cost reduction and/or revenue generation. Managers need to be able to prioritize the things that give quick and significant improvements (Johnson, Scholes & Whittington, 2005).

One major organizational response to a declining economy is separation or downsizing. This response incorporates the basic reduction of assets and expenses within the firm and necessitates many turbulent actions such as layoffs, and other forms of separation which management initiates believing, that these measures will help the organizations perform better in the long run. According to Gomez-Mejia, Balkin and Cardy (2008), a company may choose lay-offs as one of several ways of reducing costs or improving profitability. Fisher and White (2000), advanced that firm’s costs increase due to separation as a result of the package given during separation and taking care of the re-training needs of those retained by the firm. Cascio (1993) confirms this position by asserting that despite the fact that downsizing is intended to bring down the expenses, other costs such as the severance package, outplacement benefit, pension and administrative costs may increase. Cascio’s frame work showed that the cost bill decrease as a benefit of selection is not achievable. Geralis and Terziovski (2003) stated that the result of selection is in the near future (Levine, 1984).

Neubert and Cady (2001), view separation as an exercise whereby management decides to reduce the number of employees due to an economic downturn or the poor financial performance of the
company. However, according to Cooper (1987), separation is a dismissal or long term lay off of one or more workers for a reason of an economic, structural or technological character, intended either to reduce the number of workers employed in the undertaking or to alter the composition of work force.

2. Statement of the Problem

Although separations are purposed to cut costs, there is a general belief that that if firms remain with the best employees and managers during separation, the firm should realize better performance. However, a number of separation activities in several organizations negate this thought. Some negative outcomes have drawn both theoretical and practical experts’ attention to the outcomes of separation and the main questions involved in managing separation. Despite many institutions and organizations adopting separation as a management strategy, a bulk of separation related literature is based on the result of studies conducted in the developed countries (Opiyo, 2006).

It has been reported that Parastatals in Kenya are facing decline in productivity within a span of 5 years, most of the corporations have had to change the chief Executive officers at least twice which contributed to a negative effect on the productivity of employee. However, most of the Parastatals have maintained their workforce despite the complex nature of their jobs (Opiyo, 2006).

Casio (2005) investigated the effect of changes in employment on financial performance of the organizations and concluded that there was lack of evidence to give credence to the premise that separation leads to increased financial performance as measured by return on investment. Critics have cited results of separation done during economic boom as different from separation carried out during recessions. In additions, results of other studies available including Makawatsakul and Kleiner (2003) point out that separation has a negative impact on the retained staff and concludes that massive downsizing often seems to result into more problem than give solutions to them and for sure rarely achieve its original financial objectives.

Margues, Pinheiro and Ferreira (2011), highlighted that lay-offs have direct affect on both organizational commitment and innovative conduct. However, the trio further indicated that a planned approach to the implemented process could lead to continued and long term advantages to the organization. Furthermore, past studies such as those of Kobia and Mohamed (2012) and Sakunasingha (2006), indicate that most of Parastatals have experienced declining quality of
service delivery and such spends money on recruiting and training new employees yet the organizations have talent within that can be tapped into without incurring much expenditure. Lack of substantial literature and the fact that few studies have been carried out on the effects of separation in Africa, makes ‘selection’ a key strategy to be examined further. Therefore the research focused on the effect of employee separation on performance of the selected Parastatals in Kenya.

3. Purpose of the Paper

The purpose of this study was to determine the influence of Method of separation on the performance of the selected Parastatals in Kenya.

4. Literature Review

4.1 Theory of Individual Difference in Task and Contextual Performance

The Theory of Individual Difference in Task and Contextual Performance by Hunter (1986) assumes that Job performance is behavioral, episodic, evaluative and multidimensional. It defines performance as an aggregate value to the organization of the discrete behavioral episodes that an individual performs over a standard interval of time. The theory predicts that individual difference in personality and cognitive ability variable in combination with learning, experience, lead variability in knowledge, skills and work habit that mediate effect of personality and cognitive ability on job performance.

The theory contributes positively to the study as it helps in predicting the kind of knowledge, skills, work habit and traits that are associated with task performance. It gives clear guideline when it comes to employee separation to avoid loss expertise that may affect the fabric of the organization which would significant affect the performance.

4.2 Method of Employee Separation and Performance

Generally, work is an activity with the two key functions of producing goods and services required by society and committing the individual into the pattern of interrelationships from which society is developed. Brown (1989) asserts that work is a significant part of a man’s life since it is that aspect of his life which gives him status and binds him to society. Unemployment is feared because it cuts man off from his society.
Janse (2000) in his study on employee separation established that if selection is not agreed upon in advance, fair, objective and non-discriminatory method needs to be used. The method in this regard must be that LIFO (Last in First-out) should be the main criteria and where deviations from LIFO is contemplated in terms of skills retention, experience etc. This issue must be handled carefully as it is often the cause of greatly emotional and subjective conflict. Management structure that comprises implementation, monitoring and planning committees will be created to assist in the planning and implementation of the reform. Separation would be implemented in phases, where employees, society and the government would be involved.

Separation on organizational performance based studies (Guyo 2003; Okumbe 2001; Wandera 2012; Mwangi 2002), conducted in several institutions in Kenya show different results even though the bottom line which is on improvement on quality service delivery. Company revenue trends analysis of documentaries done by the above mentioned researchers among others indicate that most of the companies that retrenched like Telkom, Airtel, Uchumi, Posta, National Bank of Kenya and Kenya Commercial Bank and all commercial Banks in Kenya; limited financial performance had generally grown on a fairly increasing trend.

Erickson and Roloff, (2007) focused on the organizational support factor that facilitate organizational commitment among downsized staff on their study on analysis on the effect of organizational support, supervisor support and ganger on organizational commitment and the findings of their research indicated the organizational commitment which is positively related to both preserved organizational support and perceived supervisors support with this accounting for greater increment of variance.

Gyu-Chang Yu, Jong-Sung Park (2006), in their study on the effects of downsizing on financial performance and employee productivity of Korean firms, found out that the objective of downsizing is to explore on a firm’s financial performance in term of profitability and efficiency and firm’s employee productivity. They found out that lay-off indicated a favourable impact on increasing an organizations performance and effectiveness but no impact on worker performance.

Munoz-Bullon and Sanchez-Bueno (2010), implementation and financial performance; found out there is no relationship between the magnitude of lay-off and post–lay off organizational productivity. Specifically, organizations which disclose severe lay-offs realize comparatively reduced productivity in the subsequent year of the disclosure. Makawatsakul & Kleiner (2003),
in their study on the effect of downsizing on morale and attrition found out that Massive downsizing seems to generate more problems than solve them and rarely does it achieve its original financial objectives.

Marques, Pinheiro and Ferreira (2011), study focused on downsizing effects on survivors: a structural equations modeling analysis found out that downsizing directly affects both organizational commitment and innovative behavior. Richtner and Ahistron (2006), focused on organizational downsizing and innovation. They found out that there is negative effect of downsizing on innovation capacity.

5. Methodology

The study used causal design. According to Sekaran and Bougie (2016), the design seeks to delineate the cause and effect relationship of one or more problems. The design was key in helping the researcher examine whether various aspects of separation significantly affects the performance of Parastatals in Kenya. The target populations of the study were employees in Parastatals in Kenya that had effected separation in the last 10 years. These Parastatals include selected branches of the Kenya Commercial Bank, Telkom, Kenya Broadcasting Corporation, National Bank of Kenya, Railways and Posta operating in Nairobi County. The Parastatals were preferred as the majority had reported series of losses before separation processes commenced.

The study used a mixed multistage sampling method; the purposive stratified sampling method to select a representative sample from the identified population. In this technique, the researcher identifies the subgroups of the population of interest and then selects cases from each subgroup in a purposive manner (Teddlie & Tashakkori, 2009). A sample of retained employees was selected from six Parastatals institutions that filled the questionnaires. The Parastatals were preferred since the researcher had prior knowledge of their relative loss making history. In each firm, the respondents included one manager from key departments of Planning, Operations, Marketing and Finance and three employees from each department making up to 96 respondents.

The study used likert scale questionnaires as a major tool for data collection. The questionnaires were dropped to respondents’ offices by both the researcher and 2 research assistants, and later collected after one week. This study was conducted in a normal setting and the research questionnaires were coded to exclude the names of the respondents hence protecting their anonymity. Consent of the respondents was sought and an assurance of confidentiality affirmed.
All the questionnaires used in data collection were locked in undisclosed location and destroyed after they have served their purpose. Data was collected, coded and analyzed using SPSS version 20.0. The findings were presented in form of tables and pie charts and discussions and interpretation of the same given.

6. Results and Discussions

6.1. Response Rate

The study initially targeted 96 respondents. However the questionnaires that were dully filled, returned on time and used for data analysis were 78. The study therefore had a response of 81.25%, according to Kothari (2004), Mugenda and Mugenda (2003) a suitable response should be 60% or more of the intended sample population. The response rate was therefore considered satisfactory for data analysis.

6.2. Descriptive Statistics

The study sought to determine the influence of Method of separation on the performance of the selected Parastatals in Kenya. The descriptive analysis above reports the mean and standard deviation for the methods used in retrenchment. The questionnaire statements were coded positively with ‘Strongly Agree’ having a value of 5 and ‘Strongly Disagree’ 1. Hence a mean of more than 3 indicate agreement to the statement. Layoffs had a mean of 2.83 and standard deviation of 1.304; retirement had a mean of 3.13 with standard deviation of 0.727; dismissal mean 2.45 with standard deviation of 0.976 and resignation had a mean of 2.27 and 0.696. Therefore, most respondents cited retirement as the most common form of separation used.
Table 1: Methods of Separation

<table>
<thead>
<tr>
<th>Methods of Separation</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Was layoffs used as a method</td>
<td>78</td>
<td>2.83</td>
<td>1.304</td>
</tr>
<tr>
<td>Was Retirement used</td>
<td>78</td>
<td>3.13</td>
<td>0.727</td>
</tr>
<tr>
<td>Was Dismissal used</td>
<td>78</td>
<td>2.45</td>
<td>0.976</td>
</tr>
<tr>
<td>Did Employee Resign</td>
<td>78</td>
<td>2.27</td>
<td>0.696</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>78</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source (Researcher, 2018)

The study found out that most organizations used layoff and retirement methods to separate workers, and resignation which may be voluntary or forced was least used. The hypothesis \( H_{01} \) under the first objective stated; there is no statistically significant relationship between the method of separation and the organizational performance, stepwise regression failed to include the variable at 5% significance level, the variable was insignificant hence the study finds no evidence of an association between separation method and organization performance.

Table 2: Independent T-tests

<table>
<thead>
<tr>
<th>Independent Samples Test</th>
<th>Levene's Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>Sig.</td>
<td>T</td>
</tr>
<tr>
<td>Method of separation</td>
<td>Equal variances assumed</td>
<td>0.288</td>
<td>0.593</td>
</tr>
<tr>
<td>as a method</td>
<td>Equal variances not assumed</td>
<td>0.462</td>
<td>52.731</td>
</tr>
</tbody>
</table>

The independent t-test was carried out to test the relationship between organization performance and methods of separation, the mean for the firms that indicated improved profitability had a higher mean compared to those that reported a contrary view. The difference was not statistically significant. Therefore, there is no evidence to support that a relationship exists between organization performance and the method of separation (Method; \( t=0.457, \ df =73; \ p>0.05 \)).
7. Conclusions and Recommendations

From the findings discussed above, the forged benefits of separation as envisioned in the structural adjustment programme are yet to be met by the affected Parastatals. Most Parastatals employed a mix of voluntary and involuntary methods of separation, the study finds no evidence of relationship between method of separation and organization performance.

Therefore employers should manage the separation strategy in such a way that it minimizes disadvantages. That is whereas employee separation may be desirable in instances where employees underperform or whose skills are not matched with the organization’s mandate or goals, managers should limit the turnover rate of employees and ensure key employees are retained in the organization. Further the new employers should undergo a thorough vetting to ensure organizations tap best talent that can be retained in the long run in the organization.
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