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Research Article

EFFECT OF DOWNSIZING STRATEGY ON ORGANIZATIONAL PERFORMANCE OF COMMERCIAL BANKS LISTED IN NAIROBI STOCK EXCHANGE, KENYA

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ABSTRACT

The purpose of the study was to examine effect of downsizing on organizational performance of Commercial Banks Listed in Nairobi Stock Exchange. The study adopted descriptive survey design and targeted; risk managers, corporate affairs managers, human resource managers, finance managers, Accounts managers, audit managers and strategic managers from each of the 12 commercial banks listed on NSE in Kenya. Therefore, the target population was 96 respondents where a census method was used to select all respondents to participate in the study. Self-administered structured questionnaires were utilized to collect primary data from the respondents. Pilot test was conducted to ensure content validity, while Cronbach alpha was used to test instrument reliability. All collected data were coded, cleaned, tabulated and analyzed using descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences, version 24. Descriptive analysis such as frequencies, means, and standard deviation were utilized; analyzed data was presented in tables and graphs. Inferential statistics assessed nature and the strength of the relationships. The relationship between variables was achieved through the use of correlation analysis. Regression analysis results indicated downsizing strategy had positive and significant effect on organizational performance. The study concluded that downsizing strategies significantly influence organizational performance of listed commercial banks in Kenya. The study recommends that most companies should be very cautious when applying downsizing strategy in order to avoid downsize without figuring out how to reduce the workload.

Keywords: Downsizing, Organizational Performance, Nairobi Stock Exchange, Turnaround strategies.

INTRODUCTION

The most critical thing was the organizational performance of banks, whether for profit or non-profit. In order to take appropriate action to initiate them, it was always important for bank managers to understand which variables influence the bank's performance. However, it was not an easy task to define, conceptualize, and measure performance. Researchers have diverse perspectives and definitions of performance inside themselves, also becoming a contentious subject for organizational researchers (Pearce & Robinson, 2012). Chong (2008) argues that corporate performance, rather than economic effects, may accomplish successful targets or targets. This vision shows the crucial weaknesses in measuring success are posed by financial and economic indicators. Alternatively, non-economic interventions, while arbitrary in nature, can be implemented as alternatives to economic measures. The convergence of these two economic and non-economic metrics allows owners or executives to develop a broader viewpoint on assessing and contrasting their entrepreneurial results, in particular the level of resource utilization and efficiency, sustainability and preparedness to meet increasing external strain, like globalization (Chong, 2008). Thus, several businesses such as banks use a turnaround approach to boost profitability during economic crises: a turnaround scenario occurs anytime a business faces many years of deteriorating performance following a time of prosperity; it requires a variety of measures to cut expenses, improve productivity and raise sales (Slatter, 2014). For example, as a significant downsizing solution, retrenchment is an essential component of the turnaround plan. The crucial task of retrenchment is well known in establishing a secure basis on which to begin a recovery phase of the restructuring project. As a prerequisite or prelude to the introduction of a sustainable recovery plan, often businesses that have undergone a turnaround of financial or competitive loss invariably point to the existence of retrenchment. However, the issue persists as to whether retrenchment in an overall restructuring phase is too often a viable first move. One potential reason is that economic recession decreases the capital base of the business, so resource stability in the context of retrenchment offers an essential instrument for preventing financial decline. Both additional demands derive from the company's concurrent requirements to reverse the destructive momentum of the plan developed and to meet the high start-up costs of introducing new strategic measures (Rasheed, 2013). In addition, the phase of turnaround turns away from retrenchment and transitions towards growth and development and market share growth. Acquisitions of additional goods, new industries, and expanded consumer penetration are the means used to accomplish these targets. The significance of the second stage of the turnaround situation is underlined by the fact that this stage in the turnaround process, the recovery method, has been correlated with the primary triggers of the turnaround situation. The recovery was more commonly accomplished through policies focused on revenue-driven reconfiguration of company properties for businesses that deteriorated largely as a consequence of external problems. Turnaround was more commonly accomplished by turnaround responses that were overwhelmingly weighted against productivity maintenance methods for organizations that deteriorated largely as a consequence of internal issues. When economic metrics show that the business has recovered its pre-downturn rate of profitability, recovery is said to have been accomplished (Proropsaltis, Fulop, Meara & Edwards, 2012).

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Statement of the Problem

Financial sector is one of the main drivers of the economy in any nation like Kenya but has been experiencing drastic changes in performance due to Covid-19 pandemic. In spite of this, more than ten financial institutions have either collapsed or liquidated or have been placed under receivership by Deposit Protection Fund Board in Kenya between 2009 and 2019 (CBK, 2020). This indicates that on average, one financial institution collapsed every year over the eleven-year period making it a worrying trend. In addition, there was a decrease in the number of financial institutions that were rated strong, from 22 banks in 2014 to 11 banks in 2019 (CBK, 2020). Kenya's investment rate was below 25% of GDP during 2005 – 2019. From this analysis, banking industry in Kenya seems to be experiencing performance fluctuations. A number of strategies have been adopted to counter previous financial crises by commercial banks like asset diversification, cost cutting and modernization strategies (Shahri & Sarvestani, 2020), but studies on downsizing have shown a mixture of results on their effect on bank performance. For example, Mukhebi, Wanyama and Mamuli (2020) shows improvements in firm financial performance usually corroborate after layoffs, other studies showed that downsizing contributes to lower overheads, fewer paperwork, quicker and easier decision-making and overall performance increase. Therefore, due inconsistencies in the relationship between downsizing strategies and bank performance plus inadequate empirical evidence on the efficacy of the divestment strategy in banks motivated this study to examine the effect of downsizing strategies on organizational performance of listed commercial banks on NSE, Kenya.

LITERATURE REVIEW

Theoretical Framework

The study was guided by Contingency theory. This theory is focused on the organismic analogy, which assumes organisations to be comprised of a set of interdependent subsystems, each with a role to be done within the organization as a whole. The human subsystem embraces the individuals, their leadership, and their inspiration throughout the company. That is, the principle of contingency implies that a spectrum of variance is available to each of the subsystems. Each should be built to be aligned with the others and to conform to the atmosphere with which it is met. The organization's size would therefore have a direct influence on the subsystems and the hierarchical framework. Furthermore, the principle of contingency relies on the transparent view of structures that consider the entity as contingent on the larger world (Kast & Rosenzweig, 1985). In a condition of shared control and interdependence, the organisation and community are seen as being. A company's economic success determines whether or not it succeeds, and this is in part dictated by the way the corporation handles its interaction with the climate. Contingency theorists Kast and Rosenzweig (1985) propose that resilience is improved and the fit between intra-organizational processes and the world is encouraged by a leaner organizational framework and decreased red tape. Good operational effects are thus essentially reflected in the economic robustness of the group. Economically, lowering expenses as companies aim to increase productivity is a primary factor for downsizing (Cascio *et al.,* 2007) and corporate strategies may be better accomplished with less workers. Several strategies, especially a cost leadership strategy that helps the company to increase revenue return or increase market share by aggressive costing, appear important. This contingency theory is relevant to this study in the sense that turnaround strategies are meant to improve organizational performance. For instance, the company's downsizing of workers, the leaner cost structure may be turned into a strategic advantage by growing profitability or reducing costs, which can be reflected through an improved market share in corporate performance.

Conceptual Framework

This is a diagrammed representation of the direct relationship between independent variables (downsizing strategies) and the dependent variable (organizational performance of commercial banks listed on NSE in Kenya) as shown in figure 1.

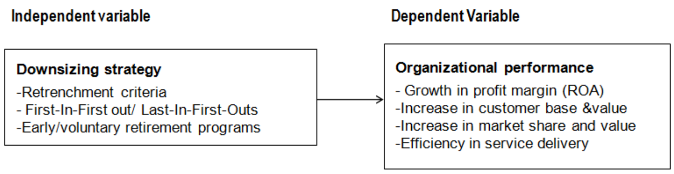

Figure 1.0: Conceptual Framework Source; Researcher, 2021

Empirical Review

The downsizing consists of a concerted collection of practices carried out by an organization's management to increase overall operational performance, effectiveness and competition, which often contributes to a decrease in the amount of workers needed by an organization. Therefore, downsizing is supposed to contribute to lower overheads, reduced paperwork, easier and faster decision-making and an eventual improvement in the company's performance rate (Sahdev, 2013). Many academics have described retrenchment as a purposeful reduction in the size of the workforce of a company (as an element of downsizing) (Bruce & Green, 2000). While downsizing is supposed to yield financial and operational gains, current research suggests that the overall image of downsizing's recorded financial results is grim (Gandolfi & Neck, 2008). A variety of cross-sectional and empirical analyses, for example, have shown that although some firms have recorded financial gains (Sahdev, 2013), a good fraction of downsized companies have not been able to attain better levels of performance, efficiency, competitiveness, and profitability (Gandolfi, 2009), some downsizing literature reveals an extremely pessimistic image of the financial condition (Burke & Greenglass, 2010). The association between Turkish banks' downsizing and financial results was analyzed by Ozlem and Bumin (2016). The researchers evaluated the banks' success before and after downsizing (2010-2015) as calculated using the Paired Samples T-Test. The findings of the study revealed that, before and after downsizing, there was no substantial gap between Turkish banks' profitability, i.e., no significant association between downsizing and bank profitability. The report, however, only assessed bank performance in terms of profitability without adding other bank performance metrics, a void that this study would address. In addition, a plurality of the staff managers surveyed in a downsizing study undertaken by the American Management Association in 2014 reported that downsizing did not boost efficiency or morale, so downsizing does not actually increase productivity levels, but rather contribute to a decrease or stagnation of productivity due to low morale of employees who still expect layoffs. In Kenya, a research by Mwangi (2012) on variables affecting the attitudes of survivors of downsizing in the banking sector towards management and job protection showed that bank workers had a comparatively low trust in the retrenchment phase of management decisions and behavior. They had a reasonably powerful sense that in the end there was inequality. Typically, the task of deciding who to let go is met by commercial banks. The exercise of retrenchment cannot be viewed as punishing any persons or classes of people, but should meet certain requirements that are called impartial. However, no formal analysis appears to have been done to evaluate the parameters utilized by commercial banks to pick the ones to be retrenched, a void that this report would address.

Munjuri (2011) examined the criterion used in Kenya by commercial banks to assess the retrenchment of employees. The study results indicate that commercial banks use seniority (Last-In-First Out), human performance of employees, misconduct, incapacity, early retirement schemes, First-In-First-Out (FIFO) and obsolescence of employees as factors for assessing the retrenchment of employees. Assessment of the individual performance of workers is the criterion most widely employed. Misconduct is often standard as a condition for retrenchment, and bribery, insubordination, frequent unwanted absenteeism, financial mismanagement, leakage out sensitive details, among others, are some of the activities that banks classify as misconduct. To a moderate degree, early retirement plans are still included. Last in-first out (LIFO) is used to a moderate degree, whereas incapacity is used to a smaller extent as a criterion. However, this study was only done in one Commercial Bank (KCB), hence the need to explore more commercial banks, a gap that will be addressed by this study. Sikayena, Amoah, and Ankomah (2016) focused on the implementation of downsizing and its effects on organizational performance in Ghana. The study revealed downsizing has a significant negative relationship on employee and organizational performance. Also, early retirement, attrition, voluntary and compulsory termination are some of the downsizing strategies employed and could be attributed to factors such as cost reduction, an increase in the levels of efficiency and organizational competiveness. It was also revealed that employees are normally ignored when taking downsizing decisions causes emotional and behavioural effects on both the downsized workers and the remaining employees. Mihwa and Malenya (2020) examined the effects of Down-Sizing on Strategic Competitiveness of Commercial banks in Kenya, Kakamega County. The study employed descriptive survey design on Population target of the management of commercial banks from the region. A sample size of respondents was drawn from the population using stratified random sampling method. The study concluded that commercial banks use down-sizing as a cost cutting measure. The findings also concluded that the commercial banks have achieved cost advantage through downsizing. However, with regards to adaptation, the study concluded that downsizing has brought with it challenges of adaptation for their firms. Tashonna (2011) examined the effects of down-sizing on Organizational Performance using panel data from 2174 product innovations that were initiated during a 39 month period at one telecommunications firm in the United States of America during down-sizing event. This study found that the general effect of down-sizing increases the likelihood of project withdrawal. Convergence protects radical innovations and buffers them from withdrawal; no effect on completion. Re-orientation enhances the likelihood of starting new projects and this prospect increases for more radical product categories. Overall, it takes time for managers to get up to speed with the strategic implications of down-sizing and resources are wasted, a potential pitfall for innovation.

RESEARCH METHODOLOGY

This study used a descriptive research design. According to Cooper and Schindler (2010), a descriptive study is concerned with finding out the what, where and how of a phenomenon. The study was done in Nairobi City targeting the 12 listed commercial banks in Kenya. This study targeted 8 relevant section managers (risk managers, corporate affairs managers, human resource managers, finance managers, business development managers, Accounts managers, audit managers, strategic managers) from each of the 12 commercial banks listed on NSE in Kenya, making a sampling frame of 96 respondents. Since this study's population is fairly small (below 100), a census method was employed to avoid sampling bias when the study population is small (Mugenda & Mugenda, 2003). Primary data was collected using a questionnaire as the main data collection instrument. Questions were constructed so as to address specific objectives and provide a variety of possible responses. A 5 point Likert scale ranging from 1 to 5 was used as answers to statement like questions where 1 represented strongly disagree, 2- Disagree, 3- Neutral, 4- Agree and 5- Strongly agree. Prior to actual collection of data, a pilot testing was conducted to obtain some assessment of the questions' validity and the likely reliability of the data that was collected. The Statistical Package for Social Sciences (SPSS) Version 24 software was used to analyze the data collected. The data analysis was descriptive as well as inferential. Descriptive analysis was used to determine the basic trends in the data by calculating percentages, means, and standard deviations of the scores on items in the study variables. Inferential analysis, on the other hand, took the shape of both correlation coefficient and multiple regression analysis. The findings were presented statistically in the form of descriptive and inferential tables.

RESEARCH FINDINGS AND DISCUSSION

Preliminary Findings

The research administered 96 questionnaires as per the sample size out of which 75 dully filled questionnaires were returned. This represents 85.22% response rate. A pilot study was conducted to determine the reliability of the test items used to gather primary data. Cronbach alpha was used to determine reliability for each variable, which had a range of 0.796 to 0.805; hence, for this research, a Cronbach alpha statistic of 0.7 or above was deemed reliable. The test items were retained and used in this study hence considered reliable as shown in the Table 1.

Table 1: Reliability Tests

Variable	No. of items	Cronbach's Alpha	Verdict
Downsizing	5	0.796	Reliable
Organizational Performance	5	0.805	Reliable

Descriptive Analysis

Descriptive analysis included percentages, frequencies, means and standard deviations. The statements were anchored on a five point Likert-type scale ranging from 5=Strongly Agree to 1= Strongly Disagree and respondents were asked to indicate the extent to which they agreed to the statements. The percentages are in parenthesis (). To measure downsizing, a set of five statements were formulated. The respondents were asked to indicate the extent of agreement with each of the downsizing. The pertinent results are presented in Table 2.

Downsizing strategy	5	4	3	2	1	Mean	SD
The banks have once applied downsizing strategy to enhance its performance	19 (25.3)	29 (38.7)	15 (20)	9 (12)	3 (4)	3.69	1.10
The bank uses First-in-First out and employee obsolescence as criteria for determining employees to retrench.	9 (12)	42 (56)	12 (16)	10 (13.3)	2 (2.7)	3.61	0.96
The bank uses	22	22	20	9	2	3.71	1.10

seniority (Last-In-First-Out) and employees' individual productivity, as criteria for determining employees to retrench	(29.3)	(29.3)	(26.7)	(12)	(2.7)		
The bank entices employees with early and voluntary retirement programs to downsize its workforce	10 (13.3)	38 (50.7)	16 (21.3)	7 (9.3)	4 (5.3)	3.57	1.02
Generally, downsizing strategy helps the bank to improve its overall performance	10 (13.3)	25 (33.3)	25 (33.3)	13 (17.3)	2 (2.7)	3.37	1.01
Overall Mean Score						**3.59**	**1.04**

N=75; KEY: 1= Strongly Disagree; 2= Disagree; 3=Uncertain; 4= Agree; 5=Strongly Agree; SD= Standard Deviation.

The study findings from table 2 indicate that out of 75 respondents who took part in the study 25.3% strongly agreed, 38.7% agreed, 20% neutral and only 12.0% disagreed with the statement that the banks have once applied downsizing strategy to enhance its performance. The line had a mean and standard deviation (M=3.69; SD= 1.10), which is an indicator that majority of the respondents well understood that the banks has once applied downsizing strategy to enhance its performance. On the statement that the bank uses First-in-First out and employee obsolescence as criteria for determining employees to retrench, 2.7% strongly disagreed, 13.3% disagreed, 16.0% were neutral, 56.0% agreed and 12.0% strongly agreed. The statement had a mean and standard deviation (M=3.61; SD=0.96).
On the statement of the bank uses seniority (Last-In-First-Out) and employees' individual productivity, as criteria for determining employees to retrench, 2.7% strongly disagreed, 12.0% disagreed, 26.7% remained neutral, 29.3% agreed while 29.3% strongly agreed (M= 3.71; SD=1.10). This implies that majority of the respondents were in agreement that bank uses seniority (Last-In-First-Out) and employees' individual productivity, as criteria for determining employees to retrench. Out of 75 respondents who participated in this study, 5.3% strongly disagreed, 9.3% disagreed, 21.3% was neutral, 50.7% agreed and 13.3% strongly agreed that with the statement that the bank entices employees with early and voluntary retirement programs to downsize its workforce (M=3.57; SD=1.02). This indicate that majority of the banks entices employees with early and voluntary retirement programs to downsize its workforce. Few of the respondents strongly agreed 13.3%, 33.3% strongly agreed that downsizing strategy helps the bank to improve its overall performance although 33.3% of the respondents were undecided. The statement had a mean and standard deviation (M=3.37; SD=1.04). Averagely, the level of downsizing strategy was at 71.8% mean response (mean=3.59, std. dev. =1.04) rated high as shown in Table 4.5 an implication that downsizing strategy such as retrenchment criteria, FIFO/LIFO, early/voluntary retirement programs influences organizational performance. To measure organizational performance, a set of five statements were formulated. The respondents were asked to indicate the extent of agreement with each of the organizational performance. The pertinent results are presented in Table 3.

Table 3: Descriptive statistics: Technology absorption

Organizational performance	5	4	3	2	1	Mean	SD
The bank realizes an increase in profit margin after adoption of turnaround strategies	18 (24)	25 (33.3)	27 (36)	3 (4)	2 (2.7)	3.72	0.97
The bank has realized an increase in number of customers in the past two years	9 (12)	44 (58.7)	14 (18.7)	6 (8)	2 (2.7)	3.69	0.88
The bank has expanded its market share after implementation of turnaround strategies	13 (17.3)	27 (36)	22 (29.3)	12 (16)	1 (1.3)	3.52	1.00
The bank has high customer retention after implementation of turnaround strategies	18 (24)	37 (49.3)	6 (8)	13 (17.3)	1 (1.3)	3.77	1.05
Generally there is increased efficiency in service delivery after implementation of turnaround strategies	18 (24)	15 (20)	26 (34.7)	14 (18.7)	2 (2.7)	3.44	1.13
Overall Mean Score						***3.63***	***1.01***

N=75; KEY: 1= Strongly Disagree; 2= Disagree; 3=Uncertain; 4= Agree; 5=Strongly Agree; SD= Standard Deviation.

The study findings from table 3 indicate that out of 75 respondents who took part in the study 24.0% strongly agreed, 33.3% agreed, 36.0% neutral, 4.0% disagreed and only 2.7% strongly disagreed with the statement that the bank realizes an increase in profit margin after adoption of turnaround strategies. The line had a mean and standard deviation (M=3.72; SD= 0.97), which is an indicator that majority of the respondents well understood that the bank realizes an increase in profit margin after adoption of turnaround strategies. On the statement that the bank has realized an increase in number of customers in the past two years, 2.7% strongly disagreed, 8.0% disagreed, 18.7% were neutral, 58.7% agreed and 12.0% strongly agreed. The statement had a mean and standard deviation (M=3.69; SD=0.88). On the statement of the bank has expanded its market share after implementation of turnaround strategies, 1.3% strongly disagreed, 16.0% disagreed, 29.3% remained neutral, 36.0% agreed while 17.3% strongly agreed (M= 3.52; SD=1.00). This implies that majority of the respondents were in agreement that the bank has expanded its market share after implementation of turnaround strategies. Out of 75 respondents who participated in this study, 1.3% strongly disagreed, 17.3% disagreed, 8.0% was neutral, 49.3% agreed and 24.0% strongly agreed that the bank has high customer retention after implementation of turnaround strategies (M=3.77; SD=1.05). This indicate that majority of the banks have high customer retention after implementation of turnaround strategies. Few of the respondents strongly agreed 24.0%, 20.0% agreed that there is increased efficiency in service delivery after implementation of turnaround strategies although 34.7% of the respondents were undecided.

The statement had a mean and standard deviation (M=3.44; SD=1.13). Averagely, the level of downsizing strategy was at 72.6% mean response (mean=3.63, std. dev. =1.14) rated high as shown in Table 3

Inferential Analysis Linear Regression Analysis

This tested the direct influence of independent variable (downsizing) on Organizational Performance. This was computed by SPSS version 23 by first transforming categorical data into continuous data so as to validly run linear regression analysis. Simple linear regression analysis was conducted to establish the direct influence of downsizing on Organizational Performance of listed commercial banks. The results are as shown in Table 4.

Table 4: Regression Results of Downsizing and Organizational Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics R Square Change	F Change	df1	df2	Sig. F Change
1	.438a	.192	.181	.68527	.192	17.339	1	73	.000

a. Predictors: (Constant), Downsizing

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.143	1	8.143	17.339	.000b
	Residual	34.281	73	.470		
	Total	42.423	74			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Downsizing

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	1.501	.473		3.173	.002
	Downsizing	.517	.124	.438	4.164	.000

a. Dependent Variable: Organizational Performance of listed commercial banks

From the Table 4, the value of R^2 is 0.192 shows that downsizing strategy explains up to 19.2% of variance in organizational performance of listed commercial banks in Kenya. From the ANOVA results, the significance of the model has a value F (1, 73) =17.339, P=0.000. This implies that downsizing strategy is a useful predictor of organizational performance of listed commercial banks in Kenya. The unstandardized regression coefficient value of downsizing strategy is 0.517 and significance level of p=0.000. This indicated that a unit change in downsizing strategy would result to significant change in organizational performance of listed commercial banks in Kenya by 0.517 units, P<0.01. Hence, there exists a positive and significant influence of downsizing strategy on organizational performance of listed commercial banks in Kenya. The simple linear regression equation is as shown below

Y= 1.501+0.517X1

Where Y= Organizational performance and; X1= Downsizing strategy.

The study established that listed commercial banks have once applied downsizing strategy to enhance its performance. Further, the listed commercial banks have used FIFO coupled with employee obsolescence as well as LIFO together with individual productivity as criteria for determining employees to retrench. This has enhanced organizational performance of listed commercial banks in Kenya. In relation to the Contingency theory, the study has established that proper execution of downsizing strategy significantly influence organizational performance of listed commercial banks in Kenya. Economically, lowering expenses as companies aim to increase productivity is a primary factor for downsizing and corporate strategies may be better accomplished with less workers. Following the company's downsizing of workers, the leaner cost structure may be turned into a strategic advantage by growing profitability or reducing costs, which can be reflected through an improved market share in corporate performance. The findings entirely identified that downsizing strategy significantly influence organizational performance of listed commercial banks in Kenya. The results of this study compare favorably with Kinanga and Cheruiyot (2015) established that there was a strong positive correlation of 0.982 between reduction of employees and the dependent variable employee performance. Mihwa and Malenya (2020) examined the effects of Down-Sizing on Strategic Competitiveness of Commercial banks in Kenya, Kakamega County. The study concluded that commercial banks use down-sizing as a cost cutting measure. The findings also concluded that the commercial banks have achieved cost advantage through downsizing. Rori (2009) concluded that employee downsizing can lead to short term improvements in profitability, however long term gains may be lost due to poor planning, implementation and monitoring. A good employee downsizing programme, therefore, is one that is based on the business organization's mission and vision guided by a clear workforce strategy effective performance of commercial banks hence they need to consider applying downsizing. However, Sayed (2013) concluded that downsizing does change the working conditions for the surviving employees in which they will no longer feel happy to work for the organisation, decreasing their loyalty towards the organisation. Oluochi and Ochoro (2011) also indicated downsizing negatively associated with organizational support which translated into surviving employees' low level of commitment. Gitonga

(2009) revealed that downsizing at Telkom Kenya failed to improve performance, productivity, or profits. Despite downsizing, Telkom has not realized productivity gains and the organization is currently anticipating negative effects.

CONCLUSION AND RECOMMENDATION

The study concluded that downsizing strategy influences organizational performance of listed commercial banks in Kenya. This implies that application of downsizing strategy would results to improvement in organizational performance. Listed commercial banks have used First-in-First out and employee obsolescence as criteria for determining employees to retrench. On the other hand, some commercial banks have used seniority (Last-In-First-Out) and employees' individual productivity, as criteria for determining employees to retrench. The study recommended that commercial banks managers should prepare the employees on the downsizing programs and how the organization is expected to regain after the exercise. This would assure the remaining employees that the program was undertaken to better their remuneration and increase improve the performance of the organization. The study recommends that most companies should be very cautious when applying downsizing strategy in order to avoid downsize without figuring out how to reduce the workload. This is because legitimate downsizing is a matter of streamlining internal processes and eliminating redundancies. However, this has also become a euphemism for staff reduction and de-layering.

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