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Effect of Rightsizing on Productivity of Mumias Sugar Company in Kenya

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Abstract:

The purpose of this study was to investigate the process of rightsizing and its effects on organizational productivity of Mumias Sugar Company situated in Western Kenya. The study sought to find out how rightsizing was carried out in the company and its effects of rightsizing on the organization's productivity and the effect of rightsizing on the company's employees. Descriptive survey design was used to guide the study. Stratified random sampling, purposive and simple random sampling techniques were employed to attain the required sample size as a representation of the general population and automatic purposive sampling of the managers for the interview schedules. The collected data was analyzed using descriptive statistics. The study established that the employees were informed in advance about the intention of the layoff. The employees did not however continue to work normally due to the fear of being laid off in near future. This fear of the unknown caused them to work extra hard recording the highest productivity during the period. There were efforts also by the remaining employees to jostle for the existing slots, which could lead to industrial unrest. From the findings it was concluded that Mumias Sugar Company needed to revamp its approach to rightsizing to alleviate the low employees' morale that switched in after the process. The employees need to be trained and adequately prepared for outplacements in the event of lay-offs. It was recommended that the Human Resource Managers should organize seminars, workshops and refresher courses to update themselves on rightsizing procedures and counseling skills. Company employees should also try to keep abreast with the new developments through mass media and journals to improve on their knowledge on the current trends in employment.

Keywords: Mumias sugar company, rightsizing, productivity, employees and management

1. Introduction

Globalization of markets in the world of commerce calls for new approaches for the survival of organizations which include shaping the sizes to suit profitable productivity, liberalization and formation of economic organizations. These organizations are found the world over. For instance, Organization for European Economic Co-operation (OECE) formed in Europe was superseded by Organization of Economic Cooperation and Development (OECD) which is a partnership between Europe, Canada and United States of America. In Asia there is Asia Pacific Organization, Economic Cooperation and Eurasian Economic Community. In Africa there are the following organizations: Common Market for East and Southern Africa (COMESA), Preferential Trade Areas (PTA), Economic community of West African States (ECOWAS) and Southern Africa Development Community (SADC).

The public sector in Kenya was conditioned to restructure and privatize most of its organizations after the Brettonwood institutions' recommendations on economic reforms. The government gave in to the demands to convince the above institutions to resume giving foreign aid, which had been stopped in 1991. The business climate became almost unbearable for most organizations due to liberalization process. Organizations in the private sector had to re-examine their business strategies in order to fight extinction or liquidation.

With the inception of the COMESA market, the future of the Sugar Industry in Kenya has been unpredictable. The Kenyan sugar industry was started back in 1922 with the inception of Miwani sugar mill and has grown to eight factories currently operating. Factory technical efficiencies and cost of sugar production in the Kenyan sugar industry are and have been major areas of concern. The cost of sugar in Kenya is twice that of the COMESA countries; estimated to be Kshs 44,152 (US \$ 679) per ton and this is way above the COMESA sugar producers with an average of US \$ 300 (KESREF Digest, 2008). This is a costly venture and appropriate measures have to be undertaken to reduce costs and make the sugar competitive both in the regional and international market (KESREF Digest, 2008).

The production is punctuated with a series of labour complaints and demands, out of date technology and Out-growers complaints such as over taxation by the sugarcane millers on the seed, fertilizers and harvest.

Therefore, identifying measures of improving factory efficiency and reducing the cost of sugar production for survival and sustenance is paramount, if Kenya has to compete favourably with other countries in the COMESA region and internationally (KESREF Digest, 2008).

The Sugar Industry has zeroed in to rightsizing. The obvious casualty is the personnel or human capital. Dececenzo (1998) asserts that people are the common element in every organization and they can be used further to an organization's competitive advantage. An organization is nothing without human resources. The organization management is left in dilemma as to whether they should insist on holding on to the many employees and make losses or reduce their workforce to remain competitive with the onset of the rightsizing policy framework. Stakeholders in the Sugar Industry have no choice but to re-examine the industry critically, with honesty, but also with imagination to determine their trends in the performance.

Speakers at the ninth African, Caribbean and Pacific (ACP) Ministerial Conference on sugar held in Kisumu in September 2008 warned that the proposed European Union Sugar reforms were a threat to the future survival of the local Sugar Industry (KESREF Digest, 2008). The European Union advised ACP countries opposed to reforms to diversify their production capabilities and modernize their equipment to be able to compete in the world market.

Determined to remain afloat in the turbulent economic waters, Mumias has made steady progress in many areas. It steadily been reducing its' workforce under Voluntary Early Retirement Scheme (VERS). This has helped to reduce the payroll load to manageable levels. The number of permanent employees has steadily reduced from 5,400 in 1990 to 1,755 in 2012. Most non-core operations have been outsourced. They include cane cutting, transport, estate services management, pharmacy, and security (Sukari Yetu, March 2007).

Rightsizing has been taken seen as one approach of solving the problems experienced by sugar factories. According to Armstrong (2006),

Rightsizing is used when the management decides that the employees are surplus and it does not have suitable alternative work for them. Cameron (1994) on the other hand, describes it as "a set of organizational activity undertaken on the part of the management of an organization to improve the organizational efficiency, productivity and competitiveness. Gitman and McDaniel (2004) argue that many firms layoff tens of thousands of workers to become more competitive.

The main purpose of rightsizing improves both performance and efficiency of a given organization.

However, there are cases where the above is not always the case. According to Brockner (1992),

89% of organizations reported expense reduction as their primary goal for rightsizing. However, only 42% actually reduced expenses in the process. By some measures, rightsizing has failed to some extent as a tool to reduce costs. Rightsizing for the sake of cost reduction has been castigated intellectually as shortsighted and neglectful of what resources are needed to increase the revenue (Hamel and Prahalad, 1994).

1.1. The Purpose of the Study

The purpose of this study was to investigate the effect of rightsizing on organizational productivity of Mumias Sugar Company in Kenya.

The specific objectives of the study were to:

1. Find out how rightsizing process is carried out in Mumias Sugar Company.
2. Establish how rightsizing has impacted on the organization's productivity.
3. Assess the impact of rightsizing on the attitude of the present employees.

1.2. The Significance of the Study

The study is likely help the Mumias Sugar Company and the entire Sugar industry Human Resource Management to re-examine the methodology they used in rightsizing. The findings of the study are likely to contribute to the improvement of the Human Resource Management practices due to emerging challenges facing industrialization and globalization. The alternatives to rightsizing suggested in the research might be adopted in future by the organizations for optimal performance. Given that rightsizing is described as "probably the most pervasive yet understudied phenomenon in the business world" (in Cameron, 1994), it became imperative that this study be undertaken to provide additional literature in the field of study.

1.3. Theoretical Framework

The study was based on the theory X and Y as postulated by Mc Gregor (1960). According to theory X, it is assumed that people cannot work independently; they must be pushed to be productive. It is imagined that scares and threats of say termination can facilitate effort output.

In relation to rightsizing, the underlying theme of theory X is that the workers cannot be trusted to perform on their own. They need to be externally motivated by the threat of punishment in order to perform. Closely associated with theory X is the practice of giving people no termination notice. The assumption that seems to underlie the practice is that people will use notice time to undermine the organization or be unproductive.

The theory Y on the other hand postulates that a person should be left free to do what they please. It assumes that persons will perform better if they are left to work on their own without harassment. From a theory Y, rightsizing may be seen as a way to free up workers

to do the good work they care to do. The analysis which precedes rightsizing is designed to reduce unnecessary or low value work, mixing bureaucratic controls, and eliminating unneeded communications layers. Rightsizing intend, from a theory Y perspective, is to enable workers to be challenged by interesting work and to have the opportunity to produce extraordinary results which are aligned with the organization's mission and goals.

The theory X characteristics have clear implications for the management. The management must direct, persuade, punish and control the activities of the people. In this case, rightsizing is taken as a remedial measure by the management to counter their presumptions about the employee. Other employees who witness the dismissal of their colleagues in turn change their way of working for fear of similar incidents to them. They therefore are forced to work harder than before to remain afloat. The employer in turn enjoys the fruits of the additional efforts, which are translated into increased productivity. The employer here uses the scaring tactics to enhance high production.

2. Research Design and Methodology

2.1. Study Design

This study was conducted using descriptive survey design. The choice of this design is justified because it is the most suitable for studying 'the conditions or events which have already occurred but are existing in the field. It investigates and helps to establish the nature of relationship in the variables at a given point in time. It is recommended for research purposes in social sciences. It is most appropriate when collecting information on opinion, education or social issues. The design is therefore relevant because the research aimed at collecting information on the effects of rightsizing on the organization's productivity. This is a social issue.

2.2. The Study Locale

The study was undertaken at Mumias Sugar Company in Mumias District of Western Province in Kenya. The company is located in the western region of Kenya along Kakamega-Busia highway and 2 km from Mumias town and 32 kilometres from Kakamega town .

2.3. The Population and Sample Size

The population consisted of 1,755 employees of Mumias Sugar Company by March 2007. The sample was drawn from these departments: Production, factory, personnel, finance and Out growers. The low cadre employees involved were 150 in number and 5 managers each from the five departments plus 5 union officials sampled from each department.

Both stratified and random sampling methods were used to obtain a representation of the general population. Simple random sampling was used to select employees from different departments of the study to ensure that each member of the target population had an equal and independent chance of being included in the sample. The sample size was one hundred and fifty five (155) employees

Table 1 shows the sample size of the research respondents.

Category of respondents	Total population (n)	Sampled population (n)	Percentage	Sampling techniques
Low cadre employees	1300	150	11.5%	Simple random
Union officials	10	5	50%	Purposive
Total	1310	155		

Table 1: Sample Size

The different categories had different percentages depending on the population of employees they had in the respective cadres.

2.4. Research Instruments

There were three different instruments used in the collection of data. These included the questionnaires, the interview schedule and document analysis. The questionnaires consisted of both open ended and closed ended questions and were administered to the low cadre employees from all departments. Interview schedule were organized with the employees of managerial and supervisory status as well as the union officials in order to source for more information on the rightsizing policy in the company. Document analysis of the company library and records were the main sources of secondary data.

Data collected was analyzed using descriptive statistics. The statistical package for social sciences (S.P.S.S.) was used to obtain measures such as frequency, mean, and percentages of the collected data and presented in form of frequency tables, charts, graphs etc.

3. The Research Findings

3.1. Process of Rightsizing in Mumias Sugar Company

The first objective of the study sought to find out how the process of rightsizing was carried out in Mumias Sugar Company. To achieve this objective, respondents were first asked to indicate if the rightsizing exercise was based on seniority of employees in the firm. The findings are on figure 1:

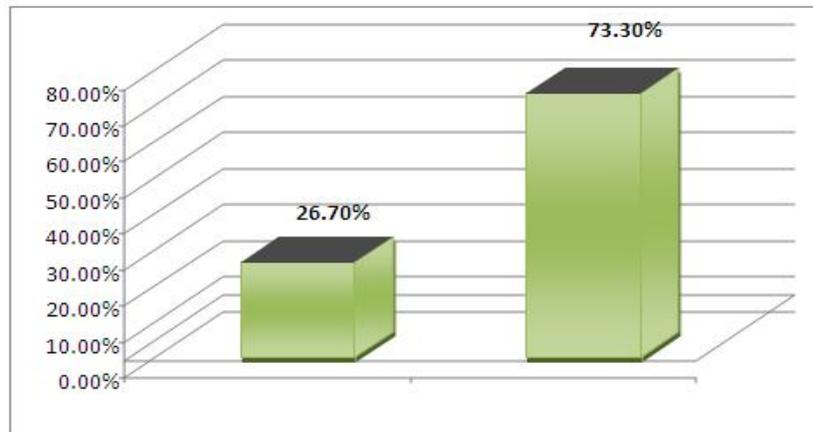


Figure 1: The level of employees affected by rightsization
Source: Research data

The findings in figure 1 show that about three quarters (3/4) of the respondents indicated that rightsizing exercise was not done based on seniority of employees in the firm. This finding contradicts the management’s response that the exercise was based on personal volition, and it was a Voluntary Early Retirement Scheme.

Further research revealed that the programme was advertised by the management to all the company employees in the five departments. There were overwhelming applications that definitely could not be met by the management. The applications had to be vetted and some of the employees were left out thereby causing outcries.

The respondents were also asked whether lower paid, non-union workers replaced the highly compensated employees. The results are presented in figure 2.

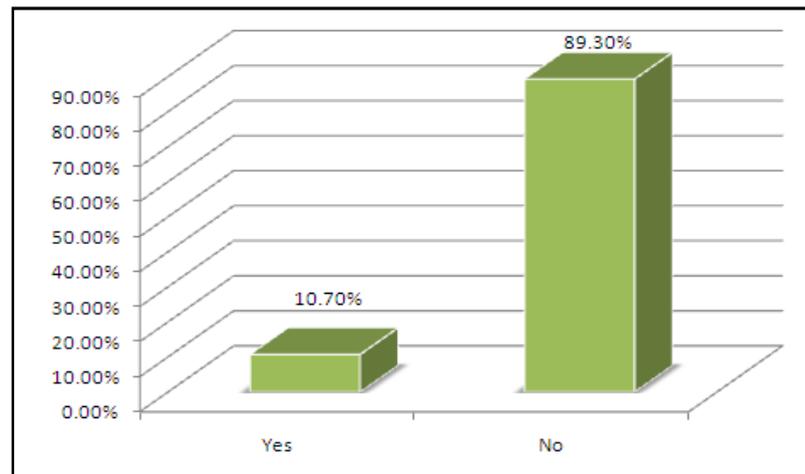


Figure 2: Replacement of lay off workers
Source: Research data

The majority of the respondents agreed that the highly paid workers were not replaced by those of lower cadre. The researcher further sought to find out how the lay off employees were replaced. The results are summarized on table 2.

Steps taken by Management	Frequency	Percentage
Rehire some laid off employees to fill positions in other departments	49	28.7
Employees hired back as consultants in other departments	101	71.3
Total	150	100.0

Table 2: Outplacement of the laid off employees
Source: Research data

The findings show that about three quarters (3/4) of the laid off employees found their way back to the company as consultants in different departments.

The managers however, refuted this and noted that the practice is discouraged. They said that the employees only made a comeback if there was an acute shortage human power in a given department. When hired they worked under contractual terms. The researcher sought to find out whether lower paid, non-union workers replaced the highly compensated employees. Figure 3 presents the results.

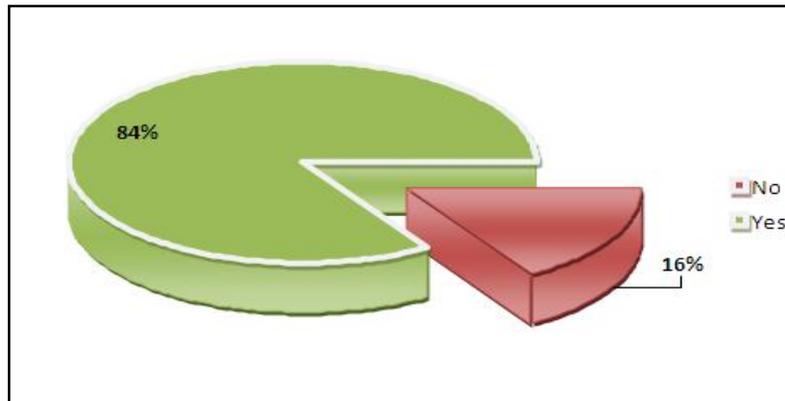


Figure 3: Replacing of highly compensated employees by lower paid, non-union workers
Source: Research data

The data in Figure 3 shows that over four fifth (4/5) of the employees said that highly paid workers were replaced with low paid and non-unionized workers. The respondents were asked if there were any organized counseling sessions for the laid off workers. The results are reported below.

	Frequency	Percent
Yes	138	92.0
No	12	8.0
Total	150	100.0

Table 3: Counseling services provided before the layoff
Source: Research data

The above findings on Table 3 indicate that almost all the respondents affirmed that there were counseling sessions before the layoff. It was established that counseling was done before the packages were paid to the laid off employees. However, some of the surviving employees were not aware of the sessions.

The managers disclosed that there were sessions which were meant to train and prepare the employees for their future life without employment. The trainings included counseling sessions and capacity building for future careers. This finding agrees with Armstrong (2006) who argues that the workforce needs to be empowered with the necessary knowledge that can enable them to be employed elsewhere in the event of early retirement.

The study investigated on the type of severance packages used for the last staff rightsizing. Below are the findings on table 4.

Packages	Frequency	Percentage
Accrued leave pay	36	24.0
Three months notice	102	68.0
Continuation of pay for a certain period of time	12	8.0
Total	150	100.0

Table 4: Severance Packages Used For 2005 Staff Rightsizing
Source: Research data

The results from table 4 indicate that more than a half (1/2) were given three months notice before they were laid off. This assertion was supported by the management

3.4. The Effect of Rightsizing on Productivity

The second objective of the study was to find out the effects of rightsizing on productivity in Mumias Sugar Company. To achieve this objective, respondents were asked; whether highest productivity was realized in 2005 the year of layoff. The figure which follows presents the findings.

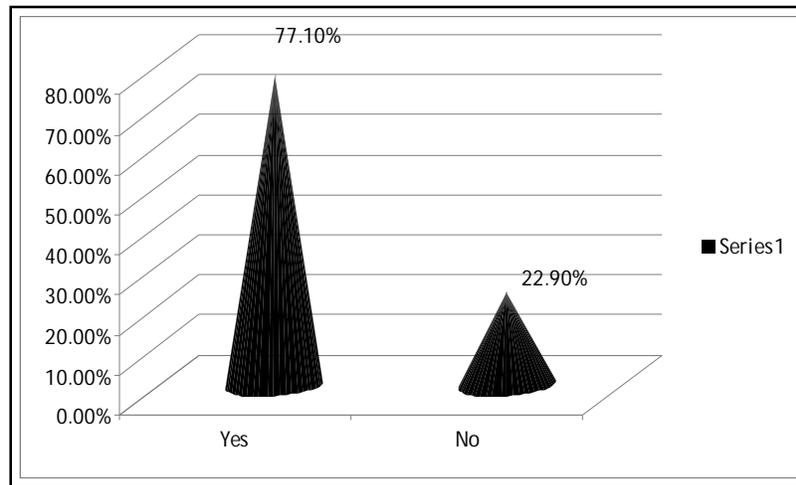


Figure 4: Firm's Highest Productivity during the Year of Layoff.
Source: Research data

The results from figure 4 show that over three quarters (3/4) of the respondents were affirmative that productivity was highest during the year of retrenchment. The managers were also in agreement regarding the productive level of the period. This performance was attributed to fear by the employees who worked extremely hard to maintain their jobs. This in turn yielded good production. The researcher probed the respondents to find out if the highest profits were realized at the same period of layoff. Below are the results.

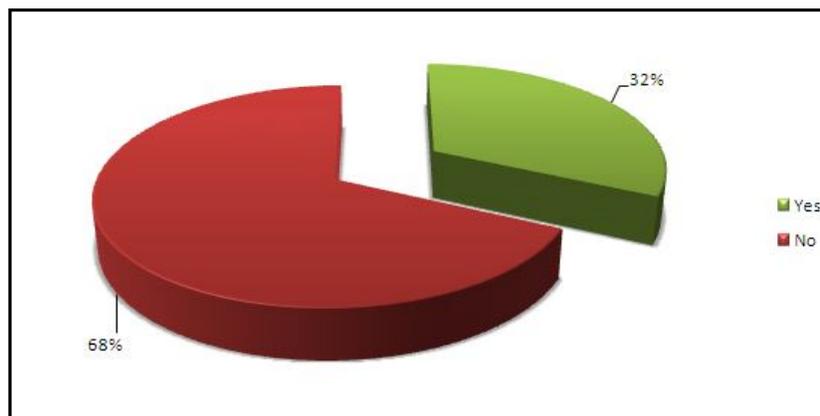


Figure 5: Highest profit realized in the year of layoff
Source: Research data

The figure above shows that almost 70% of the employees agreed that the year of laid off produced the highest profits ever. However, this finding contradicted the outcome of the question which sought to find out which of the three consecutive years (2005, 2006, 2007) produced the highest profit. The findings are on table 5:

	Frequency	Percentage
2005	15	10.0
2006	108	72.0
2008	27	18.0
Total	150	100.0

Table 5: Firm's highest profit year
Source: Research data

In the table above, 2006 recorded the highest profit. This response was not at variance with that of the managers who affirmed that the highest profit was realized in that year. Although the year of the layoff had the highest production, it did not realize the highest profit because the layoff exercise was an expensive venture although it catalyzed production. This finding is in line with the argument that the highest profits in the company

were being realized one year after the rightsizing exercise (KESREF Digest, 2008). This trend however did not continue in the succeeding years.

3.6. The Impact of Rightsizing on the Attitude of the Surviving Employees

The third objective of the study was geared towards investigating on the surviving company employees’ attitude about the layoff programme. Specifically, they were asked if they could accept jobs left by their colleagues who were laid off. Figure 6 summaries the results.

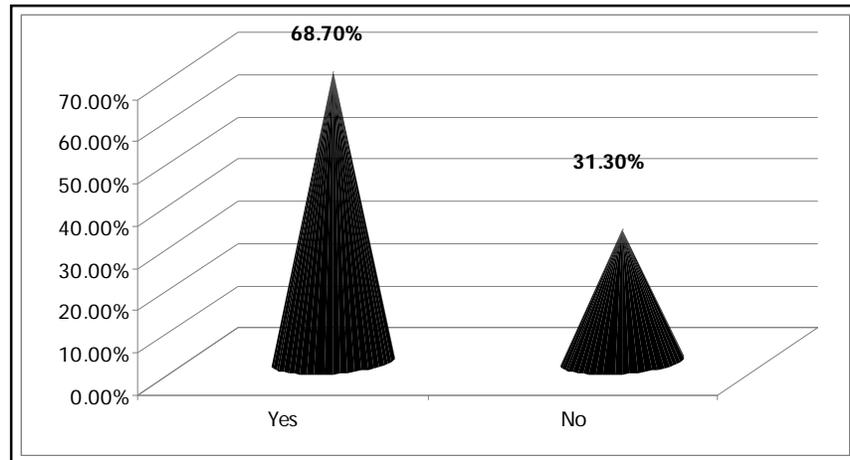


Figure 6: The existing employees and the job of a laid off employees
Source: Research data

The majority of the employees almost three quarters (3/4) responded positively. They would prefer to take up jobs left by their colleagues especially if on promotion. Already some of them were doing those jobs. The Mumias Sugar Company employees were further asked to give their views about the lay off. How did they feel about it? Was it is the most trying moment of their lives?. Their reactions are on table 6.

Responses	Frequency	Percent
Yes	111	82.7
No	39	17.3
Total	150	100

Table 6: The views of employees on the aspect of rightsizing
Source: Research data

The results from table 6 show that an overwhelming majority of the respondents had a negative attitude towards the layoff. It was the most trying moment of their employment lives. Many of them were traumatized during the period.

The researcher further sought to find out the general feelings of the employees who remained in employment at the company. Figure 7 summarizes the findings:

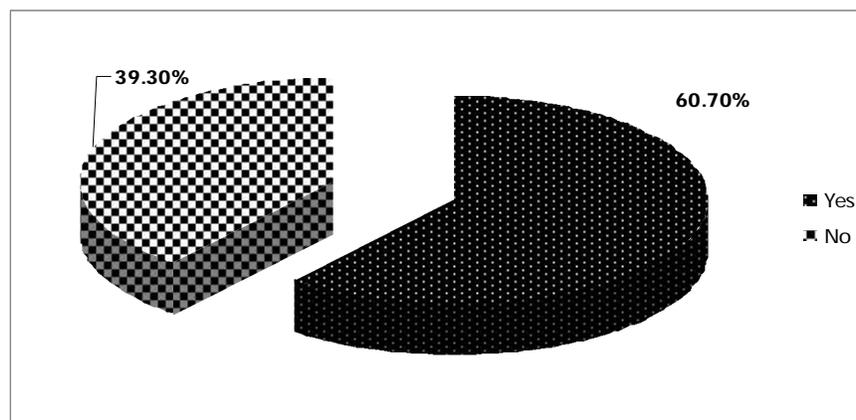


Figure 7: The effects of layoffs to the employed workers
Source: Research data

The respondents elicited mixed reactions. While over half of the respondents continued to work normally, about two-fifth (2/5) of them said that they developed a lot of fear because they could not tell if they would be the next victims of the layoff.

The study revealed that although rightsizing is practiced at the company under a scheme known as Voluntary Early Retirement Scheme (VERS), most employees were skeptical about the voluntary aspect because in some cases employees were forcefully declared redundant without prior notification.

4. Conclusions

4.1. *The Rightsizing Process in Mumias Sugar Company*

The first objective was to find out how rightsizing was carried out by Mumias Sugar Company. The study established that the company did not follow the laid down procedure of carrying out the exercise. For instance, they were not given adequate information on rightsizing; it was not voluntary nor was the process on one to one with the human resources department as is required.

4.2. *The Effect of Rightsizing on Productivity*

The second objective was to find out how the effects of rightsizing are impacting on the organization's productivity. There was increased record of productivity during the year of layoff and profitability the year after. It can therefore be concluded that rightsizing had a positive effect on production and profit levels. This however changed drastically to the negative especially when the company started hiring back the retrenched workers as consultants with high fees.

4.3. *The Effects of Rightsizing on the Mumias Sugar Company Employees*

The third objective sought to establish the effect of rightsizing on the Mumias sugar company employees. Most employees found the time for rightsizing a trying moment characterized by fear of job security and overwork leading to extra production capacity beyond the company's projection during the year of rightsizing and a year after. Later, things went back to normal, the company employed more workforce increasing it from about 1755 to above 1900. At the moment the company is recording high losses and is at verge of eminent collapse.

4.4. *Recommendations*

Based on the findings and the conclusions above, the researcher made the following recommendations:

- The Company needs to buy the various options to rightsizing and only resort to it when it is very necessary or inevitable. They can try out on various options like withdrawing all subcontracted labour, eliminating overtime and temporary layoffs.
- The company needs to revamp its approach to rightsizing to alleviate the low employees' morale which characterized the scene immediately after the process.
- The employees need to be trained and adequately prepared for outplacements in the event of lay-offs. This will empower them with the necessary knowledge for use in the event of early retirement.
- Human Resource Managers should organize seminars, workshops and refresher courses to update themselves on rightsizing procedures and counseling skills.
- The management should not employ back the workers they have retrenched nor should they engage them in consultancies.
- Company employees should also try to keep abreast with the new developments through radios and television newscasts as well as newspapers and journals to improve on their knowledge on the current trends in employment so that they are not taken unawares.
- The employees should also form professional organizations through which they could share interesting educational experiences on rightsizing and its effects.

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