DBA Africa Management Review
August 2014, Vol 4 No 2. Pp 23-31

Top Management Team, Diversity Management Strategies and Performance Of Commercial Banks In Kenya

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Diversity is an increasingly important factor in organizational life as organizations worldwide become more diverse in terms of gender, race, ethnicity, age and other characteristics. There have been different findings as to whether Top Management Team (TMT) diversity affects the performance of organizations. Some researchers argue that diverse TMT have the potential to result in strategic decision making, greater creativity, more innovation and the ability to reach more and different types of customers. Others however argue that demographic variation signals variations in underlying and invisible cognitive processes which can be a source of strive. Effective human resources strategies recognize that organizations can benefit from Top Management Team diversity by creating an environment that attracts people from diverse background and recruits the best staff regardless of ethnicity, gender or age. As a result, this study sought to find out the effect of Diversity Management Strategies on the relationship between TMT diversity and the performance of commercial banks in Kenya. All the Heads of Human Resources in the 43 commercial banks operating as at December 2010 were targeted and 33 responded. The main tool of data collection was the questionnaire while the data was analyzed using regression analyses. The study found that diversity management strategies had a significant effect on the relationship between TMT diversity and organization performance. Diversity Management strategies create and maintain an environment that naturally allows all individuals to reach their full potential in pursuit of organizational objectives for competitive advantage. Diversity management strategies will ensure that the interests of the minorities in commercial banks in Kenya are well taken care of

Key Words: Top Management Team (TMT) Diversity, Diversity Management Strategies, Organization Performance

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INTRODUCTION

Diversity may be defined as the presence of differences among members of a social unit (Jackson & Packer, 1987). It has been classified in many categories, among them demographic and cognitive diversity. Demographic diversity focuses on variables such as age, gender, nationality and race which are directly measurable attributes of individuals while the cognitive diversity focuses more on attitudinal and normative differences between individuals (Pfeffer, 1983).

Research on diversity is a challenge to review, because it spans multiple disciplinary boundaries, assesses the effects of various types of diversity focuses on many different dependent variables, and employs a wide range of types of groups and settings. Past research results on heterogeneity in groups suggests that diversity offers both a great opportunity for organizations as well as an enormous challenge. On one hand, some research suggests that more diverse groups have the potential to consider a greater range of perspectives and to generate more high-quality solutions than less diverse groups (Hoffman & Maier, 1961).

A group that is diverse could be expected to have members who have had significantly different experiences and, therefore, significantly different perspectives on key issues or problems (Jackson et al., 1991). On the other hand, the greater the amount of diversity in a workplace or an organizational subunit, the less integrated the group is likely to be (O'Reilly et al., 1989) and the higher the level of dissatisfaction and turnover (Wagner, Pfeffer & O'Reilly, 1984).

LITERATURE REVIEW

Following previous TMT researches, Simons et al. (1999), measured organization performance using profitability and sales growth. Hopkins and Hopkins (1997) used three measures in the financial performance of banks, namely, profits (or net income) as also used by Ansoff (1991), return on investment and return on shareholder equity (ROE). Bird (1991) also supports this measure.

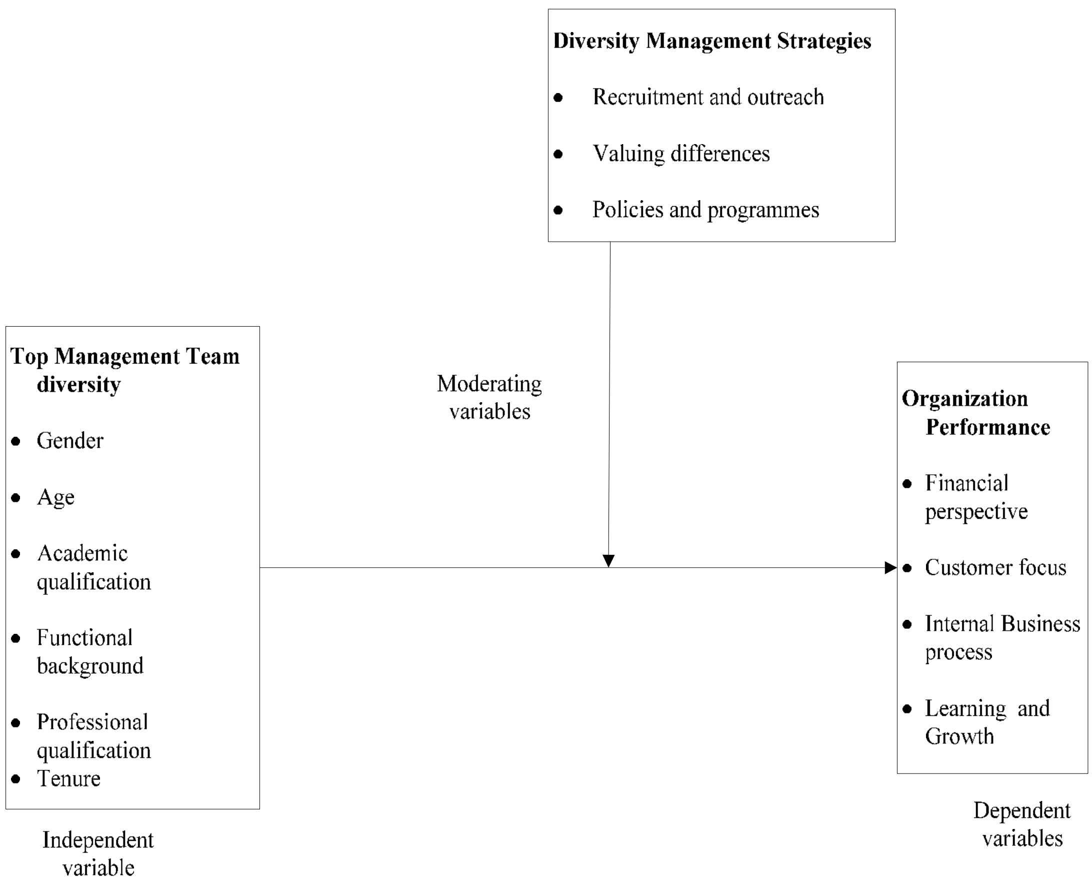
Deposit growth is another measure (Gup & Whitehead, 1989) which is unique to banking and related financial services industries. It is measured as the deposit percentage change in consumer deposits from one year to another. Delaney and Huselid (1996) used both financial and non financial indicators. The financial indicators were a percentage growth in sales, labeled as sales growth and percentage profit margin labeled as profitability. They used public image and goodwill, quality of services and efficiency of operations as the non financial indicator.

Kaplan and Norton (1992) used a balanced scorecard to complement the financial measures with operational measures on customer satisfaction, internal processes, and organizational innovation and improvement activities. The balanced scorecard was the measure of performance used in the study.

CONCEPTUAL FRAMEWORK

The literature review indicates that there are several variables that affect the relationship between diversity of Top Management Teams and organization performance. The study tested the moderating effect of diversity management strategies on the relationship between TMT diversity and organization performance. This interrelationship is captured in Figure 1, a model depicting the conceptual framework for the study.

Figure 1: Conceptual Model



METHODOLOGY

The research was cross sectional survey and targeted all the commercial banks in Kenya. Cross sectional surveys take into account a specific point of time and the choice of the research design was determined by the research philosophy. The design also supports inferences of cause and effect and involves collecting data at a specific time, unlike longitudinal studies which involves a series of observations of the study population over a period of time. The focus of this study was the effect of diversity management strategies on the relationship between Top Management Team diversity and the performance of commercial banks in Kenya.

The banking sector consists of both multinational banks and local banks operating mainly in urban areas while others have branches in other parts of the country. Some of these banks are privately owned, while others are wholly private foreign owned, partly state and publicly owned, and partly public and privately locally owned. The study targeted the Heads of Human Resources or equivalents who have insights on TMT diversity, diversity management strategies and the performance of banks.

Both primary and secondary data were collected in the study. The primary data focused on diversity management strategies and information on the four perspectives of the balanced scorecard while the secondary data focused on the Top Management Team characteristics. The use of a questionnaire to collect the primary data was preferred because the respondents were literate and the same could be administered simultaneously to many respondents.

A five point likert type scale ranging from 5 to 1, where 5 was “to a very great extent” and 1 referred to “not at all” was used to measure the performance of the banks. Pitts (2009) used a perceptual measure of performance which found a strong connection between subjective and objective measures of performance, with a correlation coefficient of .80 percent.

RESULTS

Multiple regression analyses were used to determine the moderating effect of diversity management strategies on the relationship between the TMT diversity and organization performance. A summary of the effect of diversity management strategies on the relationship between TMT diversity and organization performance are as shown in Table 1 below;

Table 1: Regression analyses and results

PREDICTOR VARIABLES	**DEPENDENT VARIABLE (ORGANIZATION PERFORMANCE)**				
	B	SE	***β***	T	P
Top Management Team Diversity	-.317	.594	-.100	-.534	.598
	R Squared = .010, F = .285				
	B	SE	***B***	T	P
Diversity Management Strategies (DMS)	2.761	.878	**.492****	3.144	.004
	R Squared = .492, F = 9.886				
	B	SE	***B***	T	P
TMT X DMS	3.605	.788	**.667*****	4.574	.000
	R Squared = .442, Change in R Square = .432***, F Change= 20.919				

** **p < .01,** *** **p < .001**

The results in Table 1 show that when TMT diversity was regressed on organization performance, R^2 was .010, meaning that TMT diversity can only explain 1 percent of organization performance as indicated in the previous hypothesis. The same model shows F = .285. In the second model, diversity management strategies were regressed on organization performance and the effect is significant with R^2 =. 492 while F = 9.886.

When diversity management strategies are combined with TMT diversity, the combined effect is significant on organization performance. The R^2 improved from .010 to .442, an increase of .432 which was statistically significant at p < .001. This indicates that the combined model can explain 44 percent of the outcome up from just 1 percent given by the Top Management Team diversity alone, an increase of 43 percent. The F-factor also improved from .285 to 20.919, an increase of 20.634 which is significant at p< .001.

The beta coefficient results of the combined effect of TMT diversity and diversity management strategies on organization performance was β=. 667 at p < .001 up from β= .-.100 which is an increase of .767 which was statistically significant. We can therefore conclude that when diversity management strategies were introduced to the relationship between TMT diversity and organization performance, the effect was significant.

CONCLUSION

Diversity of TMT is known to have negative effects on organization performance. When it comes to the distribution of resources, some departments may be favored depending on who is heading them thus increasing the negative effect of TMT on organization performance. The study however sought to establish the moderating effect of diversity management strategies in the relationship between TMT diversity and organization performance. The study found that when factors which make up diversity management strategies were introduced as moderators in the relationship between TMT diversity and organization performance, the effect on the performance of banks was significant. Murray (1989) used the moderating variables of change and competition in the study of Top Management Team heterogeneity and firm performance.

The different diversities under study influence group performance differently. Younger managers, for example have an upper edge in information technology and current knowledge having attended recently reviewed and more relevant academic programmes compared to the older managers. Their communication style, in terms of language, dress and even views may affect the way they relate with the older managers. The older managers in the banks in Kenya may also be conservative while the younger managers are more liberal. Some banks have come up with graduate management programmes which aim at developing graduates to managers and later to senior managers. Such programmes integrate the younger managers to the systems of their banks enhancing performance.

Diversity in terms of academic qualifications also affects organization performance. In an empirical study, it was found that groups with members of diverse education background found it more difficulty defining how to proceed than groups in which members have similar education backgrounds (Polzer et al., 2002). However, when there diverse TMT are encouraged to value each other regardless their differences, this is likely to lead to greater creativity and innovation.

The substantial growth registered in the Kenya banks can be linked to industry wide innovations, efficiency through technology and penetrating unbanked or under banked markets. The client base in Kenya spans the country geographically thus the banks have to be innovative to meet the client's dynamic needs. These services include mobile banking, micro financing and agent banking, which require advanced technology.

Diversity management strategies in this study were found to have a positive moderating effect on the relationship between TMT diverse and the performance of banks in Kenya. This can be interpreted to mean that when a TMT is diverse and diversity management is encouraged through valuing of diversity, when performance appraisal are done objectively and not based on personalities, or when employees are encouraged to be sensitive to colleagues from diverse backgrounds, this contributes positively to organization performance.

This means that an introduction of policies to attract and retain diverse TMT moderates on the relationship TMT-organization performance equation significantly. We can conclude that diversity management strategies have a significant positive effect on the relationship between TMT diversity and organization performance.

It is generally believed that a mix of TMT characteristics is good for organization performance. The results of the study show otherwise which clearly indicates that the biases, conflicts and communication barriers which come along in diverse teams contribute negatively to the performance of banks in Kenya. However, implementing policies to support diversity management has better influence on the performance than banks which have not put in place such strategies.

We can therefore conclude that when banks have a diverse TMT, implementing diversity management strategies will contribute positively to their performance. The bank management should therefore make a deliberate effort and invest in programmes and policies which reduce stereotyping but instead encourage valuing diversity for better performance.

IMPLICATIONS OF THE STUDY ON THEORY AND PRACTICE

The study gives consistent negative effect of observable attributes, namely age and gender on organization performance. It confirms earlier researches that biases and discrimination may still be contributing negatively to organization performance. On theory, the study advances that TMT diversity has no significant effect on organization performance using the balanced scorecard approach.

This research also serves as a reference point for those studying the relationship between TMT diversity and organization performance. Past empirical research on the relationship between TMT diversity and organization performance had recommended further research on which variables moderate on this relationship. This study found that diversity management strategies have a significant influence on this relationship.

IMPLICATION FOR POLICY

The government of Kenya is committed to have at least 30 percent presentation of any gender in public recruitments, promotions and appointments to all decision making level through gender mainstreaming in government policies, plans, budgets and programmes. The study found out that gender diversity neither contributes significantly to the performance of commercial banks in Kenya. These programmes should therefore be for affirmative action not necessarily for increase in output.

Diversity management strategies are not widely applied in Kenya unlike in some countries, like South Africa and the United States of America where laws have been passed to ensure that the interests of the minorities are well taken care of. Following the promulgation of the new Constitution in August 2010, a lot is expected to be seen in Kenya as the rights of the minority take effect.

IMPLICATION FOR PRACTICE

Since diversity in teams is here to stay, the moderating effect of diversity management strategies contribute in making the negative effect of gender and age positive.

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