

Factors influencing relationship between top management team diversity and performance of Commercial Banks in Kenya

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Abstract:

There have been different findings as to whether Top Management Team Diversity affects the performance of organizations. Some past studies have found that the characteristics of the Top Management Team influence the performance of organizations while others have found that they do not. This study, which is founded on the Upper Echelon Theory, investigated the effect of TMT diversity on organization performance. Some researchers have suggested that top management characteristics, specifically their demographic characteristics could impair decision making and thus organization performance. Others have shown that workforce diversity can lead to positive organizational outcomes such as increased morale, higher satisfaction, greater commitment and improved performance. As a result, the study sought to find out the effect of TMT diversity in the performance of commercial banks in Kenya. The target respondents were the Heads of Human Resources in all the banks and out of the 43 targeted banks, thirty three responded which was a good response rate of seventy seven percent. The questionnaire was the main tool of data collection. The data was analyzed using descriptive statistics and regression analyses. The TMT diversity attributes under study were age, gender, academic qualifications, tenure in the bank and at the top, professional and functional background diversity. The balanced score card which has four perspectives, namely financial, customer, internal business processes and learning and growth, was used as the measure for performance. The study also used secondary data obtained from the Banking Survey of Kenya to measure performance in terms of increase in customer deposits, increase in average assets and profit before tax. The study found that diversity in tenure in bank service by the TMT had a significant effect in the quality of decisions made. The study also found that the quality of decisions have a significant effect on the internal business processes and learning and growth perspectives of the balanced scorecard. However, most of the factors making up TMT diversity, namely gender, age and tenure at the top management have a negative effect on quality of decisions and also the performance of banks. Past studies have however shown that the question as to whether diversity leads to organization performance depends of the performance measures used. Since past studies have shown mixed results in the effect of TMT diversity on organization performance, the study sought to find out under which conditions this effect was significant. As a result, an intervening variable, quality of decisions and two moderating variables, namely involvement culture and diversity management strategies were introduced to the equation. The study found that the two moderating variables had a significant effect on the relationship between TMT diversity and quality of decisions and TMT diversity and organization performance. Studies on diversity are usually not easy to undertake because of the emotions which it evokes and also due to legal issue in some countries. This was not an exception in the study which focused on commercial banks which are mostly privately owned. Since most organizations have diversity at the TMT, they need to make deliberate efforts and invest in good management practices which enhance organization performance. Future researchers can concentrate on other diversity attributes like religion, race

and ethnicity to find out how they affect quality of decision and organization performance. Future studies can also use other moderators to find out if they influence or not the relationship between TMT diversity and the quality of decisions and organization performance. Results from a similar study in public institutions, especially parastatals in Kenya will be interesting as they will show the extent of gender representation at all levels of the organizations since the implementation of the new constitution in August 2010.