

## **Top Management Team Diversity, Involvement Culture and Performance of Commercial Banks in Kenya**

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**The study of the effect of Top Management Team (TMT) diversity on organization performance produces mixed results. This study investigated the effect of involvement culture on the relationship between TMT diversity and organization performance. The target respondents were the Heads of Human Resources in all the commercial banks in Kenya and out of the 43 targeted banks, 33 responded. The questionnaire was the main tool of data collection and the data was analyzed using regression analyses. Past studies have 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 on the effect of TMT diversity on organization performance, the study used involvement culture as a moderating variable and found that it had a significant effect on the relationship between TMT diversity and organization performance. As a result, 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 studies can find out which other moderating variables have a positive effect on the relationship between TMT diversity and organization performance.**

**Key Words:** Top Management Team (TMT) Diversity, Involvement culture, Organization Performance

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## INTRODUCTION

As organizations increasingly operate in a multinational and multicultural context, understanding how diversity in the composition of organization group affects outcomes such as satisfaction, creativity, turnover and performance is of increasing importance (Johnston & Packer, 1987). Top Management Team and their importance as potential determinants of organization performance continue to be a focus of strategic management researchers (Carson, Mosley & Boyar, 2004). Morison (1992) argued that organizations need to become more diverse in respect to their employees' characteristics to match the diverse backgrounds represented in their markets. The potential cognitive benefits of having a heterogeneous group stem from the argument on the impact of diversity on creativity (Hoffman & Maier, 1961) and requisite variety.

An organizational culture which involves the executives as well as employees may lead to commitment and a strong sense of ownership. The people feel that they have input into decisions that will affect their work and see a direct connection to the goals of the organization (Fey & Denison, 2003). The current study focuses on the relationship between Top Management Team diversity and organization performance in the Commercial Banks in Kenya as moderated by involvement culture.

### **Top Management Team diversity**

Diversity has been classified by researchers in different ways. One distinction is between diversity on observable or readily detectable attributes such as age and gender and diversity in

respect to less visible or underlying attributes, such as education, functional backgrounds, and tenure in the organization, personality and values (Cumming, Zhou & Oldham, 1993; Tsui, Egan & O'Reilly, 1992).

Pfeffer, (1983) found out that increases in TMT diversity enhances the organizations ability to acquire critical resources. Top Management Team diversity however comes with some challenges as initial conflict arises as the teams set norms (Carson et al., 2004). In order for teams to be efficient and effective, they must be able to reach a consensus regarding group decisions (Coll & Tucci., 2001).

### **Organizational performance**

Some organizations measure performance by assessing the stewardship of the top management or how efficient the organization utilizes its resources to produce a profit. Since the period considered is usually brief, these measures can be interpreted as indicators of how well fitted the organizational is to present conditions (Murray, 1989).

Others measure performance based on the prevailing price of an organization's stock. The efficient markets hypothesis states that the stock price multiplied by the number of shares outstanding is the best available estimate of the true value of an organization (Murray, 1989). Some studies have shown that team heterogeneity had opposite effects on performance depending on the measure of heterogeneity selected (Wiersema, 1992).

As managers and academic researchers have tried to remedy the inadequacies in performance measurement systems, some have focused on making financial measures more relevant while others improve on operational measures such as cycle time and defect rates. Kaplan and Norton (1992) thus introduced the concept of a Balanced Scorecard as a basis for a strategic management system. This approach not only included financial and non financial aspects but also blended business strategies into management systems.

### **Involvement Culture**

The culture of an organization is the psychology, attitudes, experiences, beliefs and values of that organization. These values and norms are shared by the people and groups in the organization and control the way they interact with each other and with stakeholders (Wikipedia, 2010). Culture can be classified in many ways depending on the dimensions of its variations.

Human resource practices typically reflect and reinforce national culture and organizational culture and because culture is a complex phenomenon, ranging from underlying beliefs and assumptions to visible structures and practices, some researchers question as to whether culture can be measured in a comparative sense.

Culture gives people a sense of who they are, how they should behave and what they should be doing (Harris & Moran, 1989). Both quantitative and qualitative studies have been undertaken to study organizational culture and effectiveness based on the four traits of involvement,

consistency, adaptability and mission. Two of the traits (involvement and adaptability) are indicators of flexibility, openness and responsiveness and are strong indicators of growth. The other two traits (consistency and mission) are indicators of integration, direction and vision and are better predictors of profitability. Each of the four traits are also significant predictors of other effectiveness criteria such as quality, employee satisfaction and overall performance (Denison & Aneil, 1995). The study will specifically focus on involvement traits which are reflected in participative management.

### **TMT diversity, Involvement Culture and Organization performance**

Denison and Aneil (1995), using survey based culture measures showed that perceived involvement and participation on the part of organizational members predicted both current and future financial performance. In addition, Gordon (1985) showed that high and low performing companies in the banking and utility industries had different culture profiles.

Kravetz (1988) amplified earlier findings by showing that management practices fostering participation, autonomy and creativity were closely correlated with objective indicators of organization performance. A French study of managerial values and practices also identified a set of cultural values and practices associated with the growth pattern of five single business organizations (Denison & Aneil, 1995). Kochan et al. (2003) found out that gender diversity was positively related with group bonuses in business units with a people oriented organization culture, diversity-

focused human resource practices and customer oriented business strategy but not in units that lacked those specific cultures, practices and strategies.

They further found that racial diversity was negatively related to performance in business units with competitive organizational cultures, growth oriented business strategies and training focused human resource practices but not in the units that lacked those specific cultures, practices and strategies. A cultural environment must allow differences to be celebrated instead of merely tolerated. All employees must understand the competitive and moral advantages of diversity. Often, an organization must undergo a “cultural transformation” before it can successfully achieve the full benefits of diversity ([Carnevale, 1994](#)).

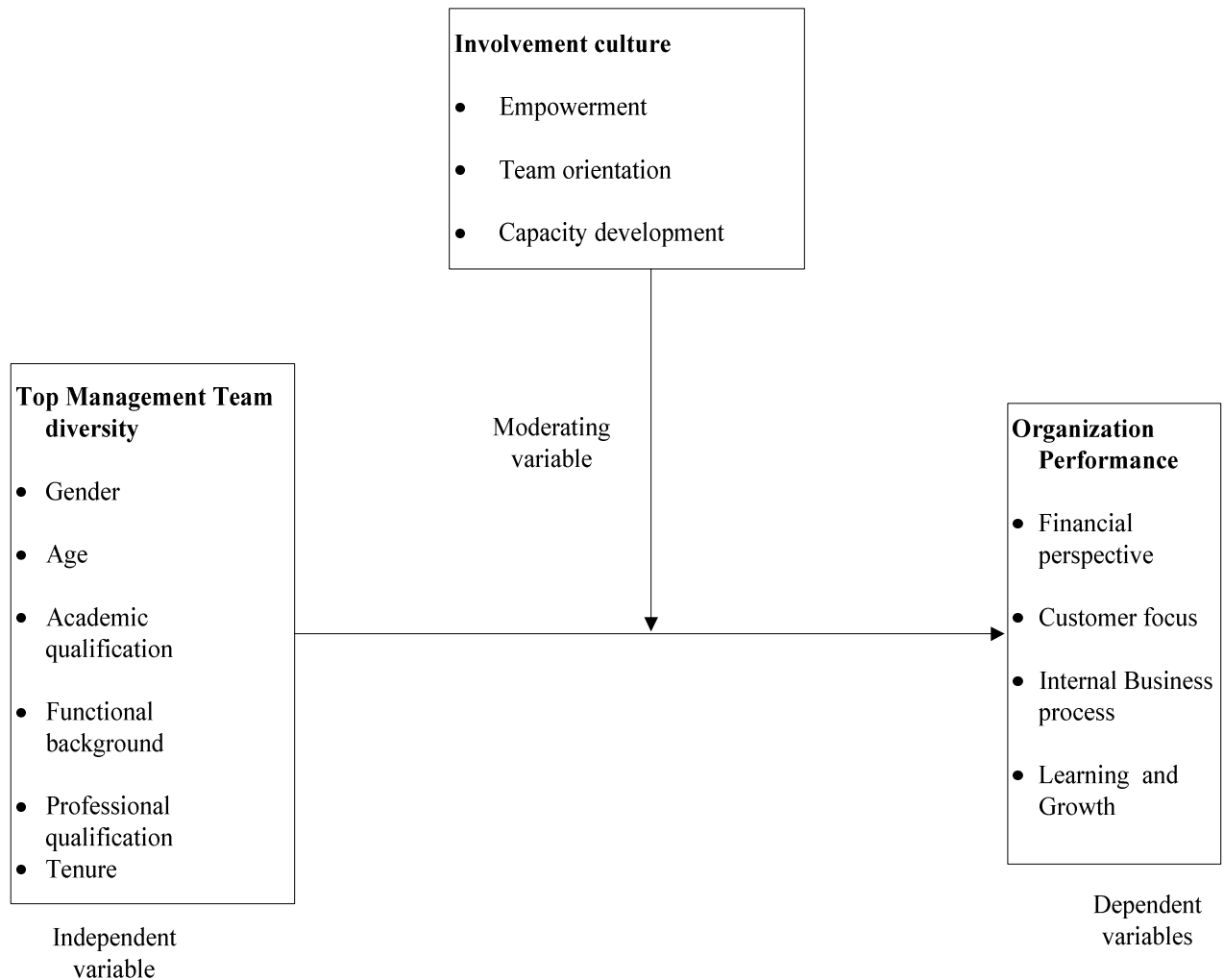
In Russia, decision making has been centralized with little empowerment. Russian managers have traditionally been punished for negative results, even those beyond their control and therefore have a strong desire to have someone else make the decision (Fey & Denson, 2003). Puffer and Shekshnia (1996) proposed that this

would be addressed creating a system of involvement in which employees would be rewarded for taking initiative and held accountable for their actions, but not punished for unpredictable outcomes. In a study of 66 Russian managers at the Tver Cotton Mill found that extrinsic rewards and behavioral management increased worker performance, but that participative techniques resulted in decreased performance (Fey & Denison, 2003). Russian organizations have a good flow of vertical information but poor horizontal flow from one department to another. Information is typically seen as a power, creating barriers to coordination and integration (Fey and Denison, 2003).

### **Conceptual Framework**

There are several variables that affect the relationship between diversity of Top Management Teams and organization performance. The study established the influence of involvement culture on the relationship between Top Management Team diversity and the performance of organizations. This interrelationship is captured in Figure 1, a model depicting the conceptual framework for the study.

**Figure 1: Conceptual Model of the factors affecting the relationship between Top Management Diversity and Organizational performance**



## HYPOTHESIS

Involvement culture has an influence on the relationship between Top Management Team Diversity (TMT) diversity and Organization Performance

## METHODOLOGY

The study was a cross sectional survey which targeted the entire population under study. Cross sectional surveys involve 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 an involvement culture on the relationship

between Top Management Team diversity and the performance of commercial banks in Kenya. Cross sectional studies, which represent the whole population, have been found to be robust in relationships studies (O'Sullivan & Abela, 2007).

The study targeted all commercial banks operating in Kenya, as listed in the Central Bank of Kenya Annual Report, 2010 which indicated that there were 43 commercial banks as at December, 2010.

The Head of Human Resources or equivalent was requested to provide the Bio data of the TMT which was available. Such an approach was used by Bantel and Jackson (1989) in their study on Top management and innovation in banking. The study used both primary and secondary data. The primary data focused on involvement culture and information on the four perspectives of the balanced scorecard while the secondary data focused on the Top Management Team characteristics. The primary data was collected using a semi structured questionnaire.

Reliability, which is a measure of the degree to which an instrument yields consistent results after repeated trials was

estimated using Cronbach's Alpha Coefficient. The alpha coefficient ranges in value from 0 to 1 and a high coefficient implies that the items correlate highly among themselves, that is, there is consistency among items in measuring the concept of interest (Mugenda & Mugenda, 2003).

Validity on the other hand is the accuracy and meaningfulness of inferences, which are based on the research results. This study used face validity where a panel of experts gave their input as to whether the instrument met the criterion. A pilot study was also conducted to find out the respondents understanding of the questionnaire and thereafter, the instrument was modified in the form of structure.

## **RESULTS**

Simple regression analysis was used to determine the effect of TMT diversity on organization performance while multiple regression analyses was used to determine the moderating effect of involvement culture on the relationship between the TMT diversity and organization performance. The results are in Table 1 below;

**Table 1: Regression analyses results for the Moderating effect of Involvement Culture on the relationship between TMT Diversity and Organization Performance**

PREDICTOR VARIABLES	DEPENDENT VARIABLE (ORGANIZATION PERFORMANCE)				
Top Management Team Diversity	B	SE	$\beta$	T	P
	-0.317	.594	-.100	-.534	.598
	R Squared = .010, F = .285				
Involvement Culture	B	SE	$\beta$	T	P
	2.722	.540	.671 ***	5.045	.000
	R Squared = .451, F = 25.447				
TMT X Involvement Culture	B	SE	$\beta$	T	P
	2.883	.497	.761 ***	5.800	.000
	R Squared = .559, Change in R Squared = .549 ***, F Change= 33.635				

\*\*\* p < .001

The results in Table 1 above show the effect of TMT diversity on organization performance, involvement culture on organization performance and the combined effect of TMT diversity and involvement culture on organization performance. When TMT diversity was regressed on organization performance, the value of  $R^2$  was .010 which means that the factors making up TMT diversity can only explain 1 percent of organization performance which was not significant. When involvement culture was regressed on the organization performance,  $R^2 = .451$  meaning that involvement culture can

explain 45 percent of the outcome while  $F = 25.447$ . The beta value = .671 at  $p < .001$ , which is significant.

The combined effect of involvement culture and TMT diversity on organization performance improved  $R^2$  from .010 to .559, an increase of .549 which was significant at  $p < .001$ . This indicates that the combined model can explain 56 percent of the outcome up from 1 percent given by the Top Management Team diversity alone, an increase of 55 percent.

The Durbin-Watson score was at 2.028. Further, the F-factor improved from .285

to 33.635, an increase of 33.350 which was significant at  $p < .001$ . The beta coefficient results of the combined effect of TMT diversity and involvement culture on organization performance were  $\beta = .761$  at  $p < .001$  up from  $\beta = -.100$  which is an increase of .861. We can therefore conclude that when involvement culture is combined with a diverse TMT, the effect on organization performance was significant.

## CONCLUSION

Past empirical studies have suggested that different variables mediate between the TMT diversity and organization performance. Ancona and Caldwell, (1992), argued that communication positively moderates this relationship. From the results of the study, involvement culture has a significant moderating effect on the relationship between TMT diversity and organization performance.

The TMT diversity under study was age, gender, tenure in the top management, academic qualifications, professional qualifications and functional background. From the results of the study, the factors which make TMT diversity do not have a significant effect on organization performance. This may be likely due to differences in perspectives. In the planning and implementation of strategy, for example, there is likely to be some differences between the older and younger managers. The younger TMT are likely to focus on an outward oriented differentiation strategy with a broad scope while the older managers are more likely to support efficiency oriented low cost strategy with a narrow scope.

Differences in professional training and exposure are also likely to lead to

disagreements when the TMT is composed of members with varied backgrounds, for example human resources and engineering. However, when an involvement culture is introduced, and information is widely shared among the diverse TMT, the performance of the banks is enhanced. An involvement culture encourages horizontal rather than hierarchical coordination and emphasizes on teams as the primary building blocks.

Further, banks with an involvement culture continually invest in the development of skills of the team members. Investment in these management practices is likely to bring the diverse TMT closer for better results. The study indicated that empowerment of a diverse TMT led to better organization performance. This may be interpreted to mean that they had greater satisfaction with their jobs, were more motivated and reduced operation costs. Empowerment means more competence, value addition to work and increased use of talent, thus an empowered TMT is likely to be more entrepreneurial and ready to take more risks.

One of the most recent methods to participate in an organization is through career planning. This has been seen as one of the best ways to retain the best and reduce dissatisfaction. The TMT, under such an environment have a say in what they expect in their employment period and have a direct effect on the efficient delivery of bank services. While the customer today is seen as the king, only a satisfied and recognized team can satisfy the customer. In bureaucratic cultures, employees are exploited, coercively managed and made to work while in an involvement culture, they are well



managed and kept happy to make them win over the competitive market.

We can therefore conclude that when teams are empowered through sharing of information needed to work, when teams have strong emotional bonds and all believe that they have a positive impact, diversity is no longer an issue in the banks thus resulting to better performance. The study contributes to knowledge in that; an involvement culture has a significant effect on the performance of banks made up of diverse Top Management Teams.

From the results of the study, banks which have a involvement culture have better performance than banks without. We can therefore conclude that when banks have a diverse TMT, they need to empower their teams through sharing of information, encouraging strong working teams and continually enhancing the competencies of the team for better performance.

#### **Implication for Theory and practice**

On theory, the study advances the importance of involvement or participation in decision making process of those affected by a decision. This has been known to create ownership and thus enhance the success of the expected results. This research also serves as a reference point for those studying the relationship between TMT diversity, involvement culture and organization performance. Other researchers can test other moderators to this relationship to find out which ones have the most significant effect. 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 bears significant implications for those responsible for the composition of the TMT. The study clearly confirms earlier research findings that TMT diversity has no significant effect the performance of organizations. In particular, the study identifies gender diversity and age diversity as having negative effects on organization performance. This implies that recruiting more of one gender to create a balance has a negative impact on the performance of organizations. High diversity in age needs to be discouraged while composing Top Management Teams as it affects their performance negatively. Moderating effects of involvement culture however contribute in making the negative effect of gender and age positive.

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