TOP MANAGEMENT TEAM DIVERSITY AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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NOVEMBER 2013
DECLARATION

This thesis is my original work and has not been submitted for a degree in any other University or Institution.

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DEDICATION

This work is first dedicated to my Supervisor, Dr. Zachary Bolo Awino. No words can describe you! You can only be an Angel that was sent to shape my academic life. It is amazing the passion you have had to see me graduate. Your commitment to the completion of this study went beyond the call of duty. You have become a household name and the pillar of my academic success. Am certain that this thesis will outlive me and as long as it remains, God shall surely bless you and your generations. Am so blessed to have met you!

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ABBREVIATIONS AND ACRONYMS

CBK: Central Bank of Kenya
CEO: Chief Executive Officer
COTU: Central Organization of Trade Unions
CSR: Corporate Social Responsibility
EPS: Earnings per Share
FKE: Federation of Kenyan Employers
ICT: Information Communication Technology
KU: Kenyatta University
PWC: Price Waterhouse Coopers
ROA: Return on Assets
ROE: Return on Equity
ROI: Return on Investment
TMT: Top Management Team
ABSTRACT

The debate as to whether Top Management Team diversity influences corporate performance has continued to attract attention from scholars and practitioners. Among researchers fueling this surge, many have argued that higher levels of diversity lead to executive creativity, more effective executive decision-making, and more positive organizational outcomes. Other researchers, however, have argued that higher levels of executive diversity result in less communication among executives, less effective executive decision-making, and less positive organizational outcomes. Thus the question of whether diversity is advantageous to organizations still remains open. Therefore, this study sought to contribute to knowledge by assessing the relationship between Top Management Team demographic diversity and corporate performance while taking cognizant of the probable role of leadership style and firm innovation as moderating variables. The specific objectives were: to establish the relationship between Top Management Team demographic diversity and corporate performance; to establish the relationship between firm innovation and corporate performance; to establish if the strength of the relationship between Top Management Team demographic diversity and corporate performance is influenced by firm innovation; to establish the relationship between Chief Executive Officer leadership style and corporate performance; to determine if the strength of the relationship between Top Management Team demographic diversity and corporate performance is influenced by the Chief Executive Officer leadership style and to establish the joint effect of Top Management Team demographic diversity, leadership style and firm innovation on corporate performance. The study population comprised of all the 43 commercial banks as listed by the Central Bank of Kenya report. The relevant data was collected from 29 banks (representing 72.5%) response rate out of the probable 40 banks since 3 banks had already been used to pilot the questionnaire hence were not included in the final study. Organizational performance was measured using financial and non financial indicators. The data analysis and interpretation were based on descriptive statistics, correlation and multiple regression analysis. Hypothesis testing revealed statistically insignificant results for the relationship between Top Management Team demographic diversity and organizational performance, firm innovation and organizational performance and on the relationship between Chief Executive Officers leadership style and organizational performance. In addition, both firm innovation and leadership style were found to influence the relationship between Top Management Team demographic diversity and organization performance and their joint effect was established to be lower than the individual moderating effect. The study encountered some limitations such as the fact that the study was done in the banking sector, it was difficult to generalize results to other sectors and thus future researchers should include firms from other sectors in the economy. In addition, data analysis was done using regression analysis technique with the assumption that relationship between data variables was linear and it is probable that relations between variables are not necessarily linear. Future researchers should consider using some other tools for statistical analysis. This study has extended our understanding on the relationship between Top Management Team demographic diversity and corporate performance by introducing the moderating effect of leadership style and firm innovation. Similarly, the study has clearly depicted that different types of diversities have different effects on corporate performance. While providing a milestone on pertinent Top Management Team diversity literature, this study has both theoretical and practical implications. From the study, it is clear that diversity has both positive and negative effects on organizations performance. Thus diversity should be managed to enhance organization’s performance. The need to establish other factors influencing the relationship between Top Management Team demographic diversity and corporate performance has been underscored. Similarly, the study has supported the complex nature of relationships between Top Management Team diversity and corporate performance and advocates for more research in this area.