Effect of Workforce Diversification on Performance of Microfinance Institutions in Uasin Gishu County, Kenya

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Abstract:
The main objective of the study was to assess the effect of workforce diversification on the performance of Microfinance Institutions in Uasin Gishu County, Kenya. Resource-based view theory informed the study. To achieve the objective of the study, the Correlational research design was employed targeting 262 employees from 8 microfinance institutions. A sample size of 122 respondents was stratified and randomly selected. Data were collected using structured questionnaires and analyzed using both descriptive, this included mean, frequency, standard deviation and inferential statistics by use of correlation and regression model to determine the nature of the relationship between variables and test hypothesis at 0.05 level of significance. Study findings showed that workforce diversification exhibited a positive and significant effect on the performance of MFIs. The study concludes that workforce diversification strategy enhances firm performance. Since workforce diversification has a positive influence on MFI performance, it is utmost necessary for MFIs to form a work atmosphere that encourages cohesiveness, coordination and contribution which influence performance.
***Keywords**: Workforce Diversification, Performance, Microfinance Institutions*

Introduction

Firm performance depends on whether a firm can create and commercialize knowledge in a timely and cost-efficient manner (Sampson, 2007). Globally, fragmented markets, diversified products, the pressure of creating new functionality have made competition stronger than ever in the financial industry (Acharya et al., 2007). In order to complement the weakness of insufficient infrastructural facilities and financial resources of the firm, strategic diversifications have become a highly fashionable business management implements to improve their competitive advantages (Hoffmann & Schlosser, 2010). Workforce Diversification is one of the most strategic business management tools meant to improve competitive advantage (Apostu, 2010). It involves significant capital outflows and entry into new products and markets; diversification has far-reaching implications for the organization's structure, systems, processes, and performance (Mohindru & Chander, 2010). According to Teece (2007) diversification should enable enterprises to obtain economies of scale or scope by sharing resources and diffusing capacity. Due to the shortcomings of the external capital market, diversification could help organizations to develop the ability to maximize the use of resources, such as production capacity, knowledge, management skills, entrepreneurship and markets (Guillen, 2009).

Diversification strategy helps an organization to spread risk among various businesses by combining a variety of investments (Mohindru & Chander, 2010). Technological advancements, new entrants and the evolution of innovations have seen changes in ways in which consumers access and demand various products and services and how organizations operate. Research conducted by Teimet et al. (2011) among the United States of America (USA) banks, diversification was seen to increase the revenue income and reduce the volatility of incomes. On the downside, diversification worsened risk-return trade-off. The diversification-performance relationship tends to follow a U-shape (upside-down) implying that although diversification is beneficial, too much of it results in poor performance (Teimet et al., 2011).

In response to stiff competition, resulting from changes in the business environment as well as the introduction of competitive policies, many firms have been forced to rationalize their operations and generally review their corporate strategies. The effectiveness of diversification as a strategic tool has been questioned. It is unclear whether diversification strategy adds value to microfinance institutions or not. In addition, studies such as

Acharya (2007); Hayden (2007); Teimet et al., (2011) and Schertler (2006) on the effect of diversification strategy and performance shows inconsistent results and the scholars have only looked at diversification of commercial banks rather than MFI. To establish this link between diversification strategy and performance, the study sought to examine the effect of diversification strategy on performance of MFIs in Uasin Gishu County, Kenya. Thus, the study hypothesized that;

H_{01}: There is no significant effect of workforce diversification on the performance of MFIs in Uasin Gishu County.

Theoretical Framework

The study was informed by Resources Based View Theory (RBV) by Wernerfelt (1984). The essence of the RBV lies in the emphasis of resources and capabilities as the genesis of competitive advantage: Resources are heterogeneously distributed across competing firms and are imperfectly mobile which, in turn, makes this heterogeneity persist over time. Dynamic capabilities, encapsulating the evolutionary nature of resources and capabilities, emerged to enhance the RBV (Eisenhardt and Martin 2000; Zahra and George 2002). Deployment of surplus resources is one of the prime motives of diversification. They distinguish tangible resources such as financial, plant, and equipment from intangible resources such as skills and know-how. They argue that whereas tangible resources are relatively inflexible, intangible resources are potentially more flexible for diversification through internal development. The resource-based view argues that a company's growth is limited by opportunities that exist as a function of a set of the company's earning power. The theory's basic reasoning is that the type, amount, and nature of an organization's resources should be considered first in selecting and establishing strategies that can lead to sustainable competitive advantage

In relation to this study, Resource-based theory provided the earliest theoretical arguments in favor of diversification. At any point in time, a firm has certain productive resources, which can be used to exploit productive opportunities to allow the firm to grow successfully. Resources create a unique advantage for a company by sharing them across businesses. For example, the benefits of sharing know-how and tangible resources, coordinated strategies, vertical integration, and pooling negotiating power. These resources allow a firm to generate economies of scale and scope by increasing the efficiency in the use of these resources.

Conceptual Framework

Independent Variable **Dependent Variable**

Workforce diversification
- Employee diversity
  - ✓ Age diversity
  - ✓ Education diversity
  - ✓ Gender diversity

→

Performance
- ❖ Profitability
  - Sales volume
  - Market share

Figure 1: Conceptual Framework

Source: Researcher (2017)

Workforce diversification was measured by proxies of employee diversity which included age diversity, education diversity and gender diversity.

Empirical Review

A study by Odita and Egbule (2015) Assed the effects of workforce diversity on organizational effectiveness in Brewery industry using selected Breweries. The strategy for generating the data for this study involves the administration of copies of the validated questionnaire on the respondents. The study looked at employee's age diversity, national diversity, and educational diversity. The questionnaire subjected to five (5) point Likert scale ranging from 1- Strongly Disagree to 5- Strongly Agree. Probability sampling method was employed in this study includes stratified sampling method (since the sampling element involve six (6) breweries in different locations), and the simple random sampling (SRS) used in the selection of the 226 staff from the 6 breweries. Linear regression and correlation analysis were employed for the analytical purpose to review the nature of statistical significance among variables.

The findings show that there is a significant positive relationship between the variables of workforce diversity (and organizational effectiveness; in particular cultural diversity was found to be more effective. Also, Team building & group training-which mediates between workforce diversity and organizational effectiveness. The study concluded that any organization whose leaders and policymakers are pragmatic, perspicacious and pertinacious, Team building & group training in line with good diversity management would act as a panacea to the cankerworm of low employee performance that has set the bottom figure of the most organizations balance sheet in the bracket.

A study by Otike., Messah and Mwalekwa (2015) established effects of workforce diversity management on organizational effectiveness for selected branches in Kenya commercial bank limited. Workforce diversity included cultural factors such as race, gender, age, color, physical ability, and ethnicity. The broader definition of diversity may include age, national origin, religion, disability, sexual orientation, values, ethnic culture, education, language, lifestyle, beliefs, physical appearance, and economic status. Specifically, the study sought to establish the extent of demographic diversity, the extent of social-cultural diversity, the management of diversity at the bank's branches and how the management of the workforce diversity affect organizational effectiveness. The Study adopted a descriptive research design .The study population consisted of all branches of KCB limited in five countries in the East African region. A sample size of 100 respondents was selected. The internet email survey had a 60% response rate.

Data collection was by use of questionnaire through internet email. The analysis was by use of descriptive and inferential statistics and SPSS version 15.0. The Pearson's correlation coefficient indicated the relationship between each independent variables and the dependent variable and tested at 5% significance level. The study established that overall, diversity affects the cohesion of the KCB and although the problems related to diversity are intermittent occurrences, in some branches, less than 20% of the branches, these happen very often. Although in 20% of the branches, diversity issues are minimal. Although, there are deliberate efforts to capitalize on diversity at KCB, very little is being achieved, and negative diversity is likely to affect organizational effectiveness, if not properly addressed.

The relationship between workforce diversity and performance was studied by Carrell (2006), describes staff diversity as the performances that people vary which can affect a duty or affiliation inside an organization like age, religion, language, ethos, gender, and learning in the banking sector of Kenya. Using pooled data of 4000 employees included of the bank. From 25 branches in Nairobi district, 3 branches, choose for sampling. The term diversity is used to illustrate how individuals differ by gender, ethnicity, age, physical abilities, lifestyle, and religion. The results show that every single organization that is managing the workforce diversity experience the extra innovative decision making, adequate working atmosphere, and improved finish goods as very personnel are interacted and feel encouraged to work in an expressive manner.

In Pakistan Iqbal and Shah (2015) investigated the impact of diversifying workforce towards organizational performance with a focus on the education sector. The research also an emphasis on workforce diversity which contains the gender, ethnic and education background of the employees which is the utmost critical variables amongst all the others. The research was done by distributing 100 questionnaires to the faculty members of 5 different universities of Karachi. The questionnaire outcomes show that there is an impact on performance when the diverse workforce is working in the education sector.

Kochan et al. (2003) conducted the study to date on the effects of diversity on business performance. Based on a five-year study on the association between race, gender diversity and business performance (measured using market share and profitability), the researchers concluded that the impact of diversity depends on the context in which it is being leveraged, including organizational culture, human resource practices, and strategy. Furthermore, Kochan et,al (2003) argued that unless explicit attention is given to managing diversity, its impact on performance is likely to be negative. The connection between workers diversity organizational performance and different dimensions have a different link with performance. Such as age has the negative relationship with performance, culture has the positive relation with productivity, sales, innovations and market shares, gender either positive or negative relationship with the performance was studied by (Richa Gupta 2013).Using pooled data from 29 companies of Jammu, from 2010 to 2013.Focused and effective diversity policy must address organizational ethos variation to form a work atmosphere that encourages cohesiveness, coordination, and contribution which definitely influence performance

There is little doubt that diversification would become an important strategy of many MFIS. Given the trends in globalization and convergence of financial institution, the competition between MFIs and financial institutions from other countries will increase. A well-defined diversification strategy may help MFIs to create or sustain their performance. This study tells which diversification strategy outperforms the other strategies and create high performance.

Material and Methods

The study adopted correlational research. The target population of 262 employees drawn from 8 MFIs within Uasin Gishu County namely; From the 8 MFIs database, there were a total 262 employees of the MFIs. A sample size of 122 was obtained using Nassiuma, (2000) sample size formula. Simple random sampling was used in this study to select sampled employees. A Cronbach's alpha value of $\alpha>0.7$ was considered reliable for the study. As shown in Table 1, the Cronbach alpha test showed values ranging from as low as 0.705 to as high as 0.911. These findings were in line with the benchmark suggested by Hair, *et al*. (2010) where the coefficient of 0.60 is regarded to have an average reliability while the coefficient of 0.70 and above indicates that the instrument has a high-reliability standard.

The study also tested internal Validity which referred to the degree to which the results are attributable to the independent variable and not some other rival explanation. To identify the shape of the distribution, Shapiro and Wilk and Kolmogorov-Smirnova were used (as propounded by Shapiro & Wilk, 1965).From these tests revealed that the variables were not significant, which meets the assumptions of normality. The study, therefore, concluded that the data came from a normal distribution.Linearity means the correlation between variables, which is represented by a straight line. The results showed that all the variables were linear with each other. The findings indicate that P values for deviation from linearity were more than 0.05 while linearity p values were less than 0 0.05.

Table 1 Diagnostic Statistics

		Organizational performance	Workforce Diversification
Reliability	Cronbach's Alpha	0.821	0.705
Normality	Shapiro-Wilk	0.942	0.964
	Sig.	0.291	0.637
	Kolmogorov-Smirnova	0.918	0.966
	Sig.	0.154	0.083
Linearity	F		182.83
	Sig.		0

Data Analysis

The data was then summarized, coded, tabulated and analyzed using both descriptive and inferential statistics. Descriptive statistics included those of the mean, standard deviation, and frequency distribution while inferential statistics involved the use of Pearson coefficient correlations. multiple regression analysis was computed to test the hypotheses.

All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$.

Findings and discussion

This section presents results of this study based on the formulated research question and hypothesis. Hypothesis is also tested with the study accepting or failing to accept them depending on the p values and t test value

Firm characteristics

The study deemed it important to establish firm characteristics. The study focused on the age of the MFI and the number of employees. Table 2 illustrates the results. In terms of age of the MFI, 12.2% (14) for 1 to 10 years, 49.6% (57) of the respondents stated that their MFI has been in operation for 11 to 20 years, 33.9% (39) for 21 to 30 years and 4.3% (5) for over 30 years.

Furthermore, 47.8% (55) of the respondents stated that their MFI has between 1 to 20 employees, 29.6% (34) noted that the MFI has between 21 to 40 employees, 13.9% (16) stated that the MFI has between 41 to 60 employees and 8.7% (10) of the respondents noted that the MFI has between 61 to 80 employees.

Table 2 Firm characteristics

		Frequency	Percent
Age of the MFI (number of years)	1-10	14	12.2
	11-20	57	49.6
	21-30	39	33.9
	above 30	5	4.3
	Total	**115**	**100**
number of employees	1-20	55	47.8
	21-40	34	29.6
	41-60	16	13.9
	61-80	10	8.7
	Total	**115**	**100**

Workforce Diversification and Performance of MFIs in Uasin Gishu

This section of the analysis presents the results on workforce diversification. The results are as presented in Table 3. The study sought to find out if the MFI has employed more employees from different ethnic communities.

Table 3 Workforce Diversification and performance of MFIs in Uasin Gishu

		SD	D	N	A	SA
The MFIs has employed more employee from different ethnic communities	Freq.	0	0	31	68	16
	%	0	0	27	59.1	13.9
The Organization has employed employee from different races	Freq.	0	1	54	28	32
	%	0	0.9	47	24.3	27.8
The MFIs has employed more employee from different religion	Freq.	0	21	51	27	16
	%	0	18.3	44.3	23.5	13.9
The MFIs has employed more employee from different age groups	Freq.	0	0	19	59	37
	%	0	0	16.5	51.3	32.2

From the findings, 13.9% (16) of the respondents strongly agreed that the MFI had employed more employees from different ethnic communities, 59.1% (68) of them agreed while 27% (31) of the respondents were neutral. The results confirmed that the MFI had employed more employees from different ethnic communities. To establish if the organization has employed employees from different races, the respondents were asked to respond. Accordingly,27.8% (32) of the respondents strongly agreed,24.3% (28) agreed, 0.9% (1) disagreed and 47% (54) of the respondents were neutral. The results revealed that employees from different races had been employed by the organization. Besides, to find out whether the MFIs have employed more employees from different religions, respondents were requested for their opinion and the results were such that, 13.9% (16) of the respondents strongly agreed, 23.5% (27) of them agreed, 18.3% (21) of them disagreed while 44.3% (51) of the respondents were neutral. The results indicate that it is undefined whether the organization has employed more employees from different religions. To ascertain whether the MFIs have employed more employees from different age groups, results revealed that, 32.2% (37) of the respondents strongly agreed, 51.3% (59) of them agreed while 16.5% (19) of the respondents were neutral.

MFI Performance

In this section of the analysis, the study highlights the results on MFI performance. Table 4 highlights the results. In relation to whether there has been growth in sales in relation to expectations, 25.2% (29) of the respondents strongly agreed that there had been growth in sales, 42.6% (49) agreed, 6.1% (7) strongly disagreed and 7% (8) of the respondents were neutral. This indicates that there has been a significant increase in sales in relation to expectations. Also, the study enquired from the respondents whether there is growth in sales in relation to competitors. The results revealed that 19.1% (22) of the respondents strongly agreed that there had been growth in sales in relation to competitors, 65.2% (75) of them agreed, 5.2% (6) disagreed, 6.1% (7) strongly disagreed while 4.3% (5) of the respondents were neutral. This implies that growth in sales in relation to competitors has been realized.

To find out if there is growth in profits in relation to expectations, respondents were requested for their opinion and the results were such that, 10.4% (12) of the respondents strongly agreed, 37.4% (43) of them agreed, 25.2% (29) of them disagreed while 20% (23) of the respondents were neutral. The results indicated that it is unclear if there is growth in profits in relation to the MFIs' expectations. To ascertain whether there is growth in profit level in relation to competitors, results were such that, 28.7% (33) of the respondents strongly agreed, 27% (31) of them agreed, 5.2% (6) disagreed, and 20% (23) strongly disagreed while 19.1% (22) of them were neutral. Further, to find out if there is increased market size in new markets in relation to their expectations. The respondents were asked to respond accordingly. Results indicated that 21.7% (25) of the respondents strongly agreed, 49.6% (57) of them agreed, 13.9% (16) strongly disagreed while 14.8% (17) of the respondents were neutral. The results findings that there is increased market size in new markets in relation to their expectations.

To establish whether there is increased market size in new markets in relation to competitors, respondents were requested for their opinion, and the results were such that, 21.7% (25) of the respondents agreed, while 57.4% (66) of the respondents were neutral. Also, the study sought to find out if there is growth in capital from operations. Results indicated that 8.7% (10) of the respondents strongly agreed, 60% (69) of them agreed, 7% (8) disagreed while 24.3% (28) of the respondents were neutral. The results indicated that growth in capital from operations. Finally, to ascertain whether there is a high level of customer loyalty, results revealed that, 21.7% (25) of the respondents strongly agreed, 33% (38) of them agreed while 33.9% (39) of the respondents were neutral. In general, the findings on MFI performance summed up to a mean of 3.6257 and standard deviation of 0. 85101. The mean suggests that the respondents were agreeable on most items on performance. On the other hand, the standard deviation indicates less variance in the responses.

Table 4 MFI Performance

		SD	D	N	A	SA
Growth in sales in relation to your expectations	Freq.	7	22	8	49	29
	%	6.1	19.1	7	42.6	25.2
Growth in sales in relation to your competitors	Freq.	7	6	5	75	22
	%	6.1	5.2	4.3	65.2	19.1
Growth in profits in relation to your expectations	Freq.	8	29	23	43	12
	%	7	25.2	20	37.4	10.4
Growth in profit level in relation to your	Freq.	23	6	22	31	33
Competitors	%	20	5.2	19.1	27	28.7
	Freq.	16	0	17	57	25
Increased market size in new markets in relation to competitors	%	13.9	0	14.8	49.6	21.7
Increased market size in new markets in relation to	Freq.	0	24	66	25	0
your competitors	%	0	20.9	57.4	21.7	0
Growth in capital from operations	Freq.	0	8	28	69	10
	%	0	7	24.3	60	8.7
High level of customer loyalty	Freq.	0	13	39	38	25
	%	0	11.3	33.9	33	21.7

Hypothesis Testing

Table 5 illustrates the model summary of multiple regression models; the results showed that workforce diversification explained 39.5 percent variation of MFI performance (R squared =0.395). Study findings in Table 5 indicated that the above-discussed coefficient of determination was significant as evidenced by F ratio of 78.897 with p-value 0.000 <0.05 (level of significance). Thus, the model was fit to predict MFI performance using workforce diversification.

The hypothesis of the study stated that there is no significant effect of workforce diversification on the performance of MFIs in Uasin Gishu County. Nonetheless, the findings showed that workforce diversification had coefficients of the estimate which was significant basing on $\beta 2 = 0.136$ (p-value = 0.045 which is less than $\alpha = 0.05$) hence we fail to accept the There is no significant effect of workforce diversification on the performance of MFIs in Uasin Gishu County. This implies that for each unit increase in workforce diversification, there is up to 0.136-unit increase in performance. Hence workforce diversification has a positive and significant effect on MFI performance. In line with the study findings, a study Odita and Egbule (2015) concluded that there is a significant positive relationship between the variables of workforce diversity (employee's age diversity, national diversity and education diversity) and organizational performance. Similarly, a study by Otike et al., (2015) established that workforce diversity management has a positive influence on the organizational effectiveness of selected branches of Kenya commercial bank limited. Further support for the study findings is by Carrell (2006) who believes the effective management of workforce diversity results in improvement of firm performance. Furthermore, a study conducted by Iqbal and Shah (2015) on the impact of diversifying workforce towards organizational performance revealed that workforce diversity has an impact on performance. However, Kochan et, al (2003) argued that unless explicit attention is given to managing diversity, its impact on performance is likely to be negative.

Table 5 Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients			Correlations
	B	Std. Error	Beta	T	Sig.	Zero-order
(Constant)	0.255	0.207		1.228	0.222	
Workforce Diversification	0.138	0.068	0.136	2.029	0.045	0.629
R Square	0.395					
Adjusted R Square	0.39					
F	78.897					
Sig.	.000b					

a Dependent Variable: performance

Furthermore, workforce diversification has positive effects on MFI performance. The results suggest that whenever organizations effectively manage their workforce by ensuring that there is a representation of employees from different ethnic communities, race, age groups and religions, their performance improves. The reason for this is that the organization harnesses talent, knowledge and different skills set from individuals from different walks of life. As well, workforce diversification markets the firm which in turn increases the sales and profit level. To sum up, workforce diversity encourages cohesiveness, coordination, and contribution which affect performance.

Conclusion and Recommendations

Workforce diversification has a positive and significant effect on MFI performance.It can, therefore, be said that MFIs employs from different ethnic communities, race, age groups and religions exhibit high performance.Workforce diversification gives MFIs a competitive edge over competitors and is effective in marketing the MFI. It is therefore crucial for MFIs to have a representation of employees from different ethnic communities, race, age groups and religions because of the crucial role they play with regard to MFI performance. Since workforce diversification has a positive influence on MFI performance, it is utmost necessary for MFIs to form a work atmosphere that encourages cohesiveness, coordination and contribution which influence performance. Such a work atmosphere can be created by having a representation of employees from different ethnic communities, race, age groups and religions. The findings demonstrated the important factors to improved MFI performance to include; geographical diversification, workforce diversification, technological diversification and product diversification. The current study should, therefore, be expanded further in future to determine the challenges facing diversification strategies of MFIs.

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