REVIEWED JOURNAL of INTERNATIONAL SOCIAL SCIENCE & HUMANITIES [ISSN 2663-127X]

Vol. 7, Iss. 1 (2026), pp 320-329, May 11, 2026. www.reviewedjournals.com, ©Reviewed Journals

CULTURAL DIVERSITY AND EMPLOYEE PERFORMANCE IN SELECTED MICROFINANCE BANKS IN NAIROBI CITY COUNTY, KENYA

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Accepted: April 20, 2026

ABSTRACT

Microfinance serves as a vital tool for improving the economic activities of low-income populations and exterminating poverty. However, the deteriorating performance of microfinance banks in Nairobi County is heavily linked to the poor output of their employees. Therefore, this research explored the influence of cultural diversity on employee performance. The study was underpinned by Blau's Theory of Heterogeneity, Equity theory, and Social Identity Theory. A descriptive research design targeted a population of 208 managers from various departments across fourteen microfinance banks. Utilizing a stratified proportionate random sampling technique, a sample of 137 respondents was generated to provide primary data through semi-structured questionnaires. The data was subsequently analyzed using descriptive statistics and regression analysis. The findings revealed that cultural diversity had a significant positive impact on employee performance with a standardized beta of 0.460 and a significance value of 0.015. The research concluded that cultural diversity plays a major role in increasing employee performance. Consequently, microfinance banks should institutionalize cultural inclusion initiatives to guarantee fair recruitment.

Keywords: *Workforce Diversity; Cultural Diversity; Employee Performance; Microfinance Banks; Cultural Inclusion; Employee Productivity.*

CITATION: Maithya, C. M. & Muli, J. (2026). Cultural Diversity and Employee Performance in Selected Microfinance Banks in Nairobi City County, Kenya. *Reviewed International Journal of Social Science & Humanities*, 7 (1), 320 – 329.

INTRODUCTION

As the global business environment becomes increasingly interconnected, organizations face a growing need to foster sustainable stakeholder relationships. Professionals actively pursue opportunities across international and regional borders, creating highly heterogeneous workplaces (Patel, 2016). Businesses are attempting to diversify their portfolios and seeking comparative benefit by being more dynamic and adaptable. Consequently, progressive leaders leverage cultural diversity to unlock new opportunities and generate innovative revenue streams (Gupta, 2013). Effective management of culturally diverse teams results in elevated productivity and heightened customer satisfaction. Companies striving to expand their market share must comprehensively recruit and support a culturally varied workforce (Patel, 2016; Wadhwa & Aggarwal, 2023). Achieving strong cultural integration provides businesses with vital tools for securing a competitive advantage. Robust cultural inclusion programs foster innovation, motivation, talent acquisition, and organizational reputation (Morfaki & Morfaki, 2022).

Overall corporate performance demonstrates a positive correlation with robust cultural diversity initiatives (Hoang, Suh & Sabharwal, 2022). In the local context, cultural variety plays a foundational role in the success of the Kenyan financial sector. Given the operational complexities of microfinance institutions, embracing cultural diversity is a prerequisite for long-term survival and market expansion (Kori & Muathe, 2022). These institutions primarily serve low-income communities in Nairobi. As a result, microfinance institutions are critical for Kenya's gross domestic product growth (Kisengo, 2014). However, unresolved cultural differences continue to pose significant barriers to the operational excellence of these entities (Munjuri & Maina, 2013). Cultural diversity entails integrating individuals from various ethnic, linguistic, and religious backgrounds into a unified corporate structure. A culturally rich environment allows a company to maximize its human resource capabilities effectively (Kemunto, 2016).

Employee commitment, abilities, and productivity are essential for achieving strategic objectives (Scott, 2018). Because performance is highly sensitive to workplace dynamics, a culturally diversified staff can stimulate healthy collaboration and enable firms to outperform competitors lacking inclusive policies (Fernandez, 2013). Integrating diverse cultural groups brings vast pools of unique experiences, linguistic skills, and unconventional business strategies. Within the microfinance industry, performance is evaluated through work output, goal attainment rates, innovativeness, and customer satisfaction levels (Mia et al., 2022; Bakari, 2023). Therefore, this study adopts work output, goal attainment, and innovativeness as the primary indicators of employee performance.

Microfinance entities are specialized banking institutions designed to serve consumers at the base of the socioeconomic pyramid. The client base primarily comprises low-wage workers and self-employed individuals, with the Kenyan sector consisting of about 250 microfinance banks. Several factors, namely the growth of the entrepreneurial ecosystem, the influx of mobile technologies, and the rise in demand for microfinance systems, have led to a significant expansion of the sector (Ndungu & Moturi, 2020). This rapid expansion necessitates agile human resource systems capable of addressing diverse stakeholder needs. Implementing culturally inclusive workplace policies significantly increases the likelihood of corporate excellence. Conversely, failing to harness the variances in employee cultural backgrounds, languages, and religions leads to internal conflicts, diminished staff morale, and an overall reduction in performance (Munjuri & Maina, 2013). Consequently, this study focuses on the correlation between cultural diversity and employee performance within microfinance banks in Nairobi County.

Statement of the Problem

Microfinance serves as a premier contributor to the national GDP, driving sustainable development and financial inclusion for small enterprises and disadvantaged populations. Despite this trajectory of growth, the banking sector is currently grappling with severe human resource challenges. Rapid sector expansion and shifting environmental dynamics have triggered high employee turnover and aggressive competition for skilled professionals. Even amid revenue growth, the financial sector suffers from significant workforce flight where employees frequently transition between jobs. This instability is often exacerbated by a lack of cohesive cultural integration and the mismanagement of diverse employee backgrounds.

The direct impact of this instability manifests in the suboptimal productivity of microfinance institutions in Nairobi County, Kenya. The Central Bank of Kenya (2019) documented an uncharacteristic contraction in microfinance expansion, noting a 7 percent decline in total assets in 2017, accompanied by reductions in active loans, advances, and consumer accounts. This deteriorating institutional impact is heavily linked to the poor performance and declining output of employees, making cultural diversity a crucial area of investigation to improve output.

Although previous scholarly works connect cultural diversity to employee performance, significant conceptual and methodological gaps persist in the literature. Zhuwao (2017) established a positive link between cultural diversity and efficiency but relied exclusively on a cross-sectional design that limits long-term applicability. Additionally, Kerga and Asafa (2016) focused their diversity research on Ethiopian workers, thereby presenting a distinct geographical and sectoral gap. To address these specific limitations, this study investigates how cultural diversity specifically influences employee productivity and performance at selected microfinance institutions in Nairobi County, Kenya.

LITERATURE REVIEW

Theoretical Review

This research is grounded in three foundational frameworks, namely Blau's theory of heterogeneity, equity theory, and social identity theory, which collectively establish a basis for studying the relationship between cultural diversity and employee performance. In 1977, Blau proposed the notion of heterogeneity, stating that adaptive organizational efficiency is hampered by differing cultural levels. If a business has homogeneous cultural groupings, constant contact leads to in-group consortia and a unified entity that ultimately impacts the firm’s productivity. Because every work group is varied, different parts of an organization tend to experience ethnic and religious diversification. Blau claimed the relationship between societal framework and unit variation is informative, arguing that social relations will be promoted if one feature, namely ethnicity, clan, or language, is homogeneous. However, members can interact beyond their immediate group to help the institution accomplish its objectives. Cultural diversity embraces these notions to explain how diverse versus homogeneous organizations interact. The theory advocates for diverse groups to aid in organizational creation and functioning, describing how linguistic, religious, and cultural differences create societal groups. Ultimately, possessing coherent units ensures that a firm’s objectives are met.

Transitioning to the individual's perspective, Adams founded equity theory in 1963, arguing that equality and equity are essential characteristics of leadership. Individuals are driven by principles of fairness, justice, and honesty. If people notice disparities in the proportions of their own and their company's inputs or outputs, they will modify their intake to attain perceived fairness. According to Yousef, this revolves around equality among employees of the same level, as well as equitable treatment of colleagues above and below them. Workers’ motivation depends heavily on their perception of the horizontal and vertical fairness of workplace policies. The theory focuses on how individuals from particular cultural backgrounds, religious beliefs, and linguistic groups relate to workmates of diverse socioeconomic backgrounds. For instance, when employees compare their job to somebody earning a better income, they might assume that individual is doing a lesser job despite the higher salary. Comparing personal effort-to-compensation ratios to others can result in decreased incentive. Because this incentive has a proportional impact on efficiency, equity theory supports the idea that ensuring fairness irrespective of cultural, linguistic, or religious diversity can directly improve overall employee performance.

Expanding on these interpersonal dynamics, social identity theory offers a sociological and psychological framework used to improve organizational effectiveness by giving a deeper comprehension of class divides. Tajfel suggested this provides a foundation for team structure, as each individual is associated with a specific group based on faith, cultural background, language, nation, or ethnicity. Individuals gradually develop social traits that categorize them within a community based on their sense of belonging, making their actions a reflection of that backdrop community.

Consequently, inter-group communications, behavior, and relationships in the workplace are heavily influenced by social classification and the histories of the societal groupings they belong to. These personal differences impact working actions and attitudes towards special incidents or people. Inside an organization, individuals prefer to align their beliefs with other participants in their affiliated groups. Often, a majority population has greater clout to influence a minority to conform, enforcing a prevailing worldview and potentially introducing perceived prejudice that affects working outcomes. According to Nkomo and Cox, inter-group aspects such as norms, collaboration, and loyalty arise from this social identity. While differing languages, religious practices, and cultural backgrounds can sometimes obstruct decision-making and corporate stability, understanding these dynamics is vital for interpreting diversity initiatives and supporting cultural diversity strategies.

Empirical Review

The link between cultural diversity has been studied under different approaches with diverse results. Mwatumwa, Kingi, and Mohammed (2016) on the effects of diversification in the workplace on worker job productivity suggested that ethnic variation had insignificant impact on success in the study area of Mombasa's County. The staff has been discovered to be ethnically amicable. According to the survey, over 85% of participants agree that ethnicity variations in workplace organizations hardly cause conflicts. While there is coherence, race does not seem to have a significant impact on performance, either positively or negatively. The research was focused on Mombasa County government employee; this study focused mainly on overall performances of Kenyan microfinance banking establishments.

Misco (2017) investigated how cultural diversity affects team performance on Romanian tourism organization. The research was a case study. The sample consisted of 30 teams that were identical with regard to of work procedures and assignments, dimensions, and proportion of women and men (15 monocultural groups and 15 multicultural teams), and the structured questionnaires was used for gathering data. The information was analyzed via a five-point Likert scale. According to the findings, multicultural teams scored higher, are more innovative, as well as provide fresh thoughts and viewpoints, but the participants are more individualistic when it comes to helping others. While interactions within multinational groups are stronger, it is yet to be proven that it relates to productivity challenges. The research was conducted on companies in Romania; this research was done in Kenya.

In research to evaluate the impacts of cultural diversity measured as ethnicity diversification on worker productivity in a chosen higher academic school in South Africa, Zhuwao (2017) claims that the state has implemented different specific laws to influence the personnel in businesses. However, these legislative efforts are solely focused on persuading businesses to respect other cultures, ignoring the commercial necessity for it and how it affects worker behavioral results like as productivity. The research evaluated the impact of diversification in the place of work on worker productivity against this background. The researchers used a cross-sectional research approach. Employees were given a Workforce Diversity Survey and a Worker Effectiveness Survey. The findings revealed a favorable and statistically meaningful link among cultural diversification and worker effectiveness. The study was carried out on institutions in South Africa; this research was carried out on Kenyan Microfinance Banking establishments.

The goal of Kemunto’s (2016) research was to see how worker culture heterogeneity affected organization effectiveness. The study employed a descriptive quantitative methodology. A five-point Likert scale survey was employed to gather primary data. The survey was carried for staff at oil Libya filling outlets in Nairobi. Gathered information was processed into the SPSS 20.0 statistics program and descriptive statistics were calculated. A population sample was chosen from the whole employee population using a survey method. The information was analyzed via descriptive statistics. The correlation between employee multiculturalism and organizational efficiency was investigated using regression. The findings demonstrated that organizational effectiveness is influenced by cultural diversity. The research was conducted in gas station outlets in Nairobi and the study concentrated more on cultural diversification, this research concentrated on all other factors of work place diversification on selected Microfinance banks in Kenya.

Okwurume and Onuoha (2019) examined the connection among handling cultural diversity strategies and large-scale firm performance as an organization in Rivers State. The examination is planned as a cross-sectional study and gathers information from 208 workers from a total sample of 464 workers at global organizations utilizing a organized survey. The Spearman's rank order correlation coefficient was employed in the investigation to test a link between each of the elements of cultural diversity management - investment, integration, and withdrawal - and the gauge of organizational performance creativity. All findings indicated noteworthy connections, suggesting that all beforehand mentioned theories were dismissed. Finally, it was stated that the practice of investiture, assimilation, and divestiture improves the relationship between employees within the organization and provides them with solid supportive grounds.

Figure 1 shows the study’s conceptual framework based on the empirical and theoretical framework.

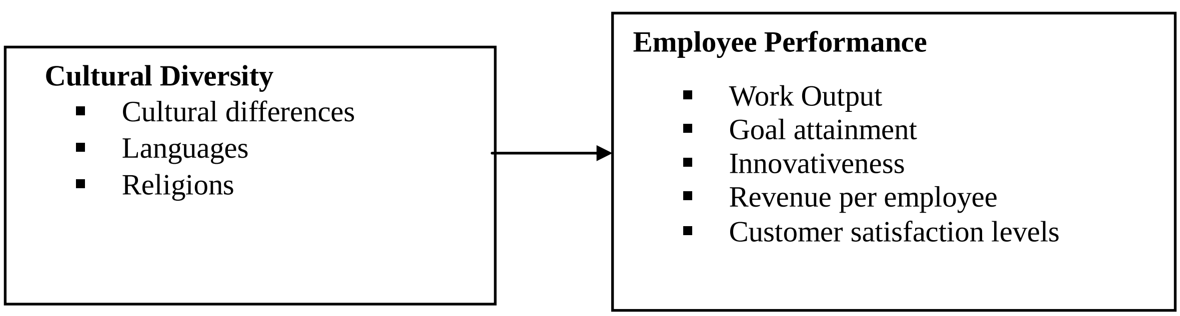

Figure 1: Conceptual Framework

METHODOLOGY

The research successfully utilized a descriptive research design to accurately evaluate how cultural diversity impacts overall employee performance within specific organizations. The target population encompassed 208 employees from fourteen distinct microfinance banks operating in Nairobi County, namely personnel in human resources, marketing, ICT, customer experience, and finance departments. Furthermore, a stratified proportionate random sampling technique, guided by Taro's mathematical formula, successfully derived a representative sample size of 137 respondents. Quantitative data was then systematically collected using targeted semi-structured questionnaires featuring a Likert scale.

The descriptive statistics, as well as, inferential analytical techniques were utilized to establish the connection between the independent and dependent variables (Saunders, 2012). Data was first cleaned to eliminate errors, inconsistencies and duplication. Statistical tools Statistical Package for Social Science (SPSS) version 20 was then leveraged to monitor the trends in employees work output, innovativeness and goal attainment in relation to the cultural diversity. The regression model below further helped to derive the linear relations between cultural diversity and employee performance metrics.

The multiple regression model below further helped to derive the linear relations between age, educational, cultural and gender diversity and the studied employee performance metrics.

FINDINGS AND DISCUSSION

The findings are based on the results from the quantitative data gathered from a sample of 124 respondents out of 137 sample managers selected from MFI banks in Nairobi County.

Demographic Characteristics

Figure 2 shows the demographic factors analyzed including age, gender, educational attainment, and professional experience.

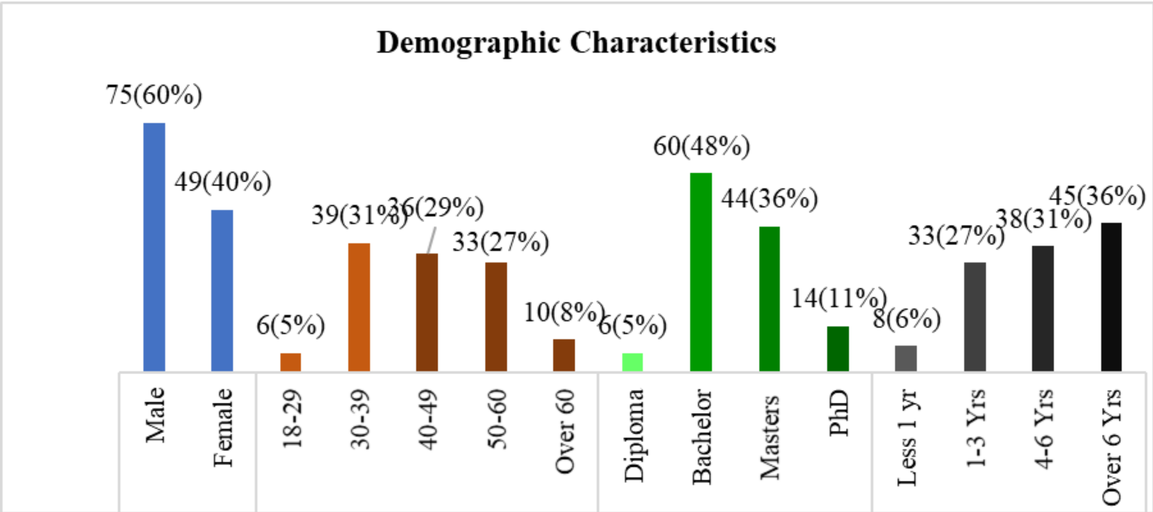

Figure 2 Respondents Demographics

The results in Figure 2 show that male respondents outnumber females at 75 (60.5%) to 49 (39.5%), a statistic which set the stage for understanding how this reflects in cultural diversity in the banking sector. The age distribution revealed that the workforce is primarily concentrated in two brackets that together form the majority. Namely the 30–39 years (31.5%) and 40–49 years (29.0%). This combination embodies young vigor and professional expertise

Educational attainment underscores a highly educated workforce essential for financial management as indicated by 48.4% holding a Bachelor degree and 35.5% holding a Master degree, jointly forming an 83.9% majority. Professional expertise was dominated by two main cohorts which were respondents with above 6 years of experience (36.3%) and 4 to 6 years (30.6%) jointly make up a 66.9% majority.

Descriptive Statistics

Descriptive statistics were calculated to summarize the study variables characteristics. This analysis was done with reference to the independent variables being: cultural diversity and employee performance as the dependent variable. The real findings from the survey rated their level of concurrency on a 5-point Likert scale.

The research objective was to assess the effect of cultural diversity on staff productivity in selected MFBs in Nairobi City County, Kenya. The data describing the cultural diversity is shown in Table 1 with mean scores and standard deviations for all statements.

Table 1: Cultural Diversity

Statements	Mean	Std. Dev
My firm's recruitment procedures promote cultural diversity hence enhances our overall productivity as staff members	3.643	1.172
Having colleagues from diverse ethnic, religious, social, economic, and communal backgrounds enable us to achieve the company goals better than having a workplace dominated by particular ethnic groups	3.927	1.090
Cultural diversity mechanisms in my firm enable us to develop creative and innovative solution to our stakeholders	4.074	1.141
The revenue per employee in my company would be significantly lower if it lacked incentives for recruiting staff from diverse cultural background	3.796	1.266
knowledge that I have been acquiring from my colleagues from other cultures, religion, ethnic have significantly improved my ability to surpass our customers' needs	4.157	1.161
Overall, my contributions to my company's success have been impacted positively with workplace diversity incentives that have been installed by the firm	4.111	1.171
Aggregate Mean	**3.951**	**1.167**

The results Table 1 show that more than half of respondents agreed that microfinance banks recruitment procedures promote cultural diversity hence enhances overall productivity of staff members (Mean = 3.643, SD = 1.172). Further, two thirds of respondents agreed that having colleagues from diverse ethnic, religious, social, economic, and communal backgrounds enabled employees to achieve the company goals better than having a workplace dominated by particular ethnic groups (Mean = 3.926, SD = 1.190). A similar pattern is observed in the statement regarding the Cultural diversity mechanisms in my firm enable us to develop creative and innovative solution to our stakeholders, where three quarters of responders concurred (Mean = 4.074, SD = 1.141).

Regarding whether the revenue per employee in microfinance bank would be significantly lower if it lacked incentives for recruiting staff from diverse cultural background, slightly more than half of respondents agreed (Mean = 3.796, SD = 1.266). In terms of knowledge that employees have been acquiring from my colleagues from other cultures, religion, ethnic have significantly improved their ability to surpass organization customers' needs, three quarters of respondents agreed (Mean = 4.157, SD = 1.161). The statement about the overall contributions to company's success have been impacted positively with workplace diversity incentives that have been installed by the microfinance bank had more than two thirds of responders agreeing (Mean = 4.111, SD = 1.171). The overall mean across all statements was 3.951 with a corresponding variation of 1.167. This infers that most of the respondents recognized the manifestation and handling of cultural diversity in microfinance bank in Nairobi city county. This result concurs with Kemunto (2016) who established that cultural diversity had a significant impact on organizational effectiveness among the employees of Oil Libya in Nairobi. On the same note, Zhuwao (2017) established a positive significant relationship between employee effectiveness and cultural diversity in higher learning institutions in South Africa.

The participants were called upon to give their response on employee performance in selected microfinance banks in Nairobi City County. Table 2 demonstrates more than half of responders concurred that work-output, accomplishment of tasks accurately and within the deadlines (Mean = 3.900, SD = 1.081). Regarding the Goal Attainment, rates of achieving or surpassing periodic and strategic targets, three quarters of respondents agreed that meeting the quarterly set targets improves employee performance (Mean = 4.482, SD = 1.034). When asked about the innovativeness, two thirds of respondents agreed that application of unconventional and new ideas in performing tasks and value creation improves employee performance (Mean = 3.924, SD = 1.108).

Table 2: Employee Performance

	N	Mean	Std. Dev
Work-output (accomplishment of tasks accurately and within the deadlines)	124	3.900	1.081
Goal Attainment (rates of achieving or surpassing periodic and strategic targets)	124	4.482	1.034
Innovativeness (application of unconventional and new ideas in performing tasks and value creation)	124	3.924	1.108
Customer satisfaction levels	124	4.027	1.034
Revenues generated per employee	124	4.031	1.067
Individual contribution to the success of your company's competitive edge, market share and profitability	124	4.074	1.141
Aggregate Mean		**4.053**	**1.077**

For the statement on Customer satisfaction levels, more than three quarters of respondents agreed that the level of satisfaction is generally high (Mean = 4.021, SD = 1.034). Regarding the revenues generated per employee, two thirds of respondents agreed that employee performance directly proportional to the revenue generated per employee (Mean = 4.031, SD = 1.067). Finally, for the statement on market share and profitability, slightly above two thirds of respondents agreed that individual contribution affect the success of MFIs competitive edge, (Mean = 4.074, SD = 1.141).

The overall mean across all assertions was 4.053, with an average SD of 1.077. This high average level of agreement suggests that respondents generally perceive employee performance in MFIs in Nairobi City County positively, which is indicated by work output, goal attainment, innovativeness revenue per employee and customer satisfaction. These findings imply that while most respondents are satisfied with the employee performance, there may be areas where improvements can be made to ensure more consistent and continuous employee performance.

Inferential Statistics

The multiple linear regression analysis by employing inferential statistics helped to determine the correlation that existed between workplace diversity (cultural diversity) and the staff productivity. The contribution made by Cultural Diversity (Beta = 0.460, t = 1.674, p = 0.015), indicated a highly significant positive relationship with staff productivity. Specifically, an enhancement of one unit in cultural diversity is predicted to improve employee performance by 0.853 units (B=0.853) within microfinance institutions in Nairobi City County.

This affirms that cultural differences, religion and languages significantly impacted employee performance. These findings support the evidence provided by Zhuwao (2017), who affirmed that cultural diversity is positively related to the productivity of the workers. On the same note, Kemunto (2016) also established that cultural diversity brings about organizational effectiveness thus the contribution of this study is positive. This proves the

Belau Theory of Heterogeneity, which asserts that the heterogeneity of workforce can be made productive through effective management.

CONCLUSION

The study concludes that cultural diversity plays a major role in increasing staff productivity within microfinance banks. Specifically, the findings confirm that organizations that successfully integrate and manage varied cultural differences, languages, and religions enjoy significantly better performance outcomes. Embracing these diverse cultural backgrounds and fostering an inclusive workplace directly translates to measurable improvements in work output, goal attainment, innovativeness, revenue per employee, and overall customer satisfaction levels. Therefore, the paper confirms that leveraging cultural and linguistic diversity within the workforce is a strategic imperative essential for spurring holistic performance in the microfinance banking industry when properly managed.

RECOMMENDATIONS

Based on the research findings, several practical recommendations emerge for industry stakeholders. Firstly, microfinance banks should actively enhance and institutionalize initiatives that promote cultural inclusion and multicultural competence within their workforce. By implementing targeted programs that accommodate linguistic differences, religious practices, and distinct cultural backgrounds, institutions can foster deeper respect, understanding, and collaboration among staff. Consequently, this cohesive environment translates directly into measurable improvements in employee work output, innovativeness, and goal attainment.

Beyond the organizational level, industry regulators, namely the Central Bank of Kenya (CBK) and the Association of Microfinance Institutions (AMFI), should consider integrating specific cultural diversity and inclusion metrics into standard industry compliance requirements. Championing cultural integration practices across the sector will significantly elevate the human resource capacity of the entire microfinance industry. Ultimately, this macro-level approach will build systemic resilience, improve customer satisfaction levels, and drive optimal overall performance across the banking sector.

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