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Impact of Workforce Diversity on Organizational Effectiveness: Evidence from Nepalese Commercial Banks

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Abstract

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Purpose: The primary purpose of this study is to examine the relationship between workforce diversity and overall effectiveness of Nepalese commercial banks, focusing on how diverse employee backgrounds contribute to organizational performance and operational success.

Method: The descriptive and casual comparative research designs were used. The data were collected from 210 managerial level employees of Nepalese commercial banks through structured questionnaires. The study applied purposive sampling technique to collect the data. Both descriptive and inferential statistical tools were used for data analysis. Data analysis was performed using Smart PLS 4.

Results: The study reveals that ethnic diversity does not significantly influence organizational effectiveness. Conversely, gender and age diversity are significant predictors of organizational effectiveness. These results underscore the relevance of gender and age diversity in enhancing organizational performance in the Nepalese commercial banks.

Conclusion: The research highlights the importance of fostering gender-balanced and age-diverse workforces for improving organizational effectiveness. By focusing on gender and age diversity, banks can better harness diverse perspectives and experiences, leading to improved outcomes. These findings suggest that workforce diversity is a major organizational strategy to enhance organizational effectiveness by fostering innovation, improving decision-making, increasing employee satisfaction, and enhancing customer services.

Keywords: Workforce diversity, organizational effectiveness, commercial banks, causal-comparative, Smart PLS 4

I. Introduction

Workforce diversity is a continually evolving concept, especially as globalization intensifies. It encompasses the variety of demographic characteristics present within a group or organization, including differences in age, gender, race, ethnicity, culture, education, and

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physical or mental abilities. These diverse attributes contribute to the richness of perspectives and experiences within the workforce, making diversity a key factor in fostering innovation, creativity, and resilience in an increasingly interconnected world (Erasmus, 2007). The contemporary workforce is far more diverse in its composition compared to the past. The diversification of the workforce has been driven by several key factors, including globalization, an aging population, increased participation of women and minorities in a wider range of professions, the growth of knowledge-based roles, the formation of collaborative work teams, and the increasing presence of virtual and part-time workers within organizations (Adhikari & Shrestha, 2019). Over the past decade, the workforce in industrialized countries has become increasingly heterogeneous. Significant investments are being made in diversifying these workforces. As a result, diversity is now widely recognized and leveraged as a vital organizational asset, essential for attracting top talent, delivering exceptional customer service, and sustaining a competitive advantage (Hapompwe, 2020).

Workforce diversity has emerged as a critical strategic priority for many firms aiming to promote equity and fairness in the workplace (Ng & Sears, 2012; Mor Barak, 2015). The principle of equal opportunity ensures that diverse talent can contribute to enhancing business efficiency and effectiveness, rather than losing valuable perspectives due to these differences (Henry & Evans, 2007). Globalization and increased immigration have further fueled workforce diversity, exposing local employees to colleagues from diverse cultural backgrounds (Johnston, 1991; Kundu, 2003; Henry & Evans, 2007). The presence of multiple characteristics among employees, has become a focal point in organizational studies and management practices due to globalization (Cho et al., 2017).

Nepal is known as rich diversity of ethnic groups and cultures, but lacked diversity in its organizations, however, recent years have seen a notable increase in workforce diversity (The Rising Nepal, August 6, 2019). Previously, participation in the judiciary and civil service was predominantly from Brahmin and Chhetri groups, with other ethnic groups' representation as low as 2.4% (Pandey & Risal, 2021). Women's participation in civil service was only 9%, with minimal representation in decision-making roles (Pradhan, 2020). In 2007, Nepal's government introduced significant reforms through the second amendment of the Civil Service Act of 1993, mandating 45% reservation and inclusion. This included 33% for women, 27% for Indigenous groups, 22% for Madhesis, 9% for Dalits, 5% for disabled individuals, and 4% for residents of backward regions, as stipulated by the Interim Constitution of 2007. This provision aimed to empower marginalized communities, ensuring equitable job opportunities and marking a pivotal moment for workforce diversity in Nepal's public sector (Gautam, May 2014, Kantipur Daily).

Gautam (2014) emphasized that the reservation policy implemented by the government of Nepal has played a pivotal role in promoting greater inclusion and diversity within civil services, public institutions, and government-owned banks. The policy ensures representation from different ethnic groups, and genders, leading to a more diverse workforce. The situation of workforce diversity in Nepalese commercial banks is evolving, albeit gradually. While there has been progress in incorporating gender and ethnic diversity, significant challenges remain. Women are increasingly represented, particularly in entry and mid-level positions, but they are still underrepresented in senior leadership roles (Acharya & Sharma, 2022). Ethnic diversity reflects Nepal's rich cultural mosaic, though representation in higher echelons is limited (Gurung, 2021). Age diversity is also being recognized, with both young tech-savvy employees and experienced older workers contributing to the banks' operations (Khadka, 2023). Despite these positive strides, cultural barriers, unconscious biases in recruitment and promotion, and the lack of comprehensive diversity and inclusion policies continue to hinder the full realization of a diverse workforce (Bhattarai & Poudel, 2021). A diverse workforce can

enhance customer satisfaction by being better equipped to understand and cater to a wide range of customer needs (Roberson, 2019). Considering this context, the main objective of this study is to assess the current state of workforce diversity in Nepalese commercial banks and evaluate its impact on organizational effectiveness.

II. Reviews

Workforce diversity encompasses the range of differences among individuals in an organization, including factors such as age, gender, race, ethnicity, and other distinctive characteristics. These variations contribute to a rich and dynamic work environment, where different perspectives, skills, and experiences are brought together to foster innovation and enhance overall organizational performance. It involves integrating the rich dimensions of these individual differences to enhance organizational functioning (Carrel et al., 2006). Saxena (2014) highlighted that a diversified workforce is becoming a standard practice in contemporary organizations. The competitive market pressures compel organizations to improve overall productivity and performance to maximize profits. Jha (2019) explored the influence of workforce diversity on a range of organizational outcomes, such as productivity, profitability, employee commitment, innovation, market growth, and overall performance. The study concluded that diversity positively influences organizational performance. Diversity also significantly impacts the communication processes within groups or organizations (Timmerman, 2020). Ellis and Sonnenfeld (2014) argued that a positive diversity climate correlates with increased job satisfaction and organizational commitment. Diversity management initiatives enable organizations to comprehend the unique traits and attitudes of people from different groups and locations, thereby better meeting customer needs (Emiko & Eunmi, 2009). Ultimately, these initiatives aim to maximize the potential of all employees, directly benefiting the organization.

Age Diversity and Organizational Effectiveness

Age diversity within the organizations has been increasingly recognized as a key driver of organizational effectiveness. Research demonstrates that age-diverse teams bring a wealth of varied experiences, perspectives, and skills, fostering innovation and creativity. A mix of younger employees, who often possess up-to-date technical skills and fresh ideas, combined with older employees, who bring deep industry knowledge and historical context. Such combination creates a synergistic environment that enhances problem-solving and rational decision-making (Boehm & Kunze, 2015). Studies have shown that organizations with a broad age range among their workforce are better positioned to understand and cater to a diverse customer base, thereby improving customer satisfaction and expanding market reach (Kunze et al., 2013). Furthermore, age diversity can contribute to improved employee satisfaction and retention by promoting a culture of inclusion and mutual respect, which in turn positively impacts overall organizational performance (Pelled, 1996). Evidence suggests that when managed effectively, age diversity can lead to enhance team performance and productivity, as diverse teams are more likely to challenge the status quo and explore innovative solutions (Van Knippenberg et al., 2004). Thus, fostering age diversity is not only a matter of social responsibility but also a strategic advantage that can significantly boost organizational effectiveness (Jackson et al., 2003). Based on these facts, the following hypothesis has been proposed:

H₁: Age diversity significantly influences organizational effectiveness.

Ethnic Diversity and Organizational Effectiveness

Ethnic diversity in organizations can lead to varied outcomes in performance, depending largely on how well diversity is managed and integrated into the organizational culture. While

it has the potential to enhance creativity and problem-solving, without effective management, it can also result in communication barriers and reduced team cohesion. Ely and Thomas (2001) found that the impact of ethnic diversity on organizational performance is mediated by how diversity is managed within the organization. They highlighted that without an inclusive environment that values different perspectives, ethnic diversity can lead to misunderstandings and decreased cooperation among employees. Furthermore, Chatman and Flynn (2001) suggested that ethnic diversity can sometimes hinder group performance due to differences in cultural norms and communication styles, which can result in misalignment of team goals and reduced efficiency. Jehn et al. (2019) also emphasized that the presence of ethnic diversity alone does not guarantee enhanced organizational outcomes. Their research indicates that diversity can create fault lines within teams, leading to subgroup formation and conflict, which can negatively impact team cohesion and performance. Similarly, Williams and O'Reilly (2018) provided a comprehensive review of the literature on diversity and performance, concluding that the relationship between diversity and performance is complex and influenced by multiple factors such as task type, organizational context, and leadership effectiveness. Klein and Harrison (2007) argued that the potential benefits of ethnic diversity, such as increased innovation and creativity, are contingent on the presence of strong leadership and effective diversity management practices. They assert that without these elements, ethnic diversity may not translate into improved organizational effectiveness and can sometimes have neutral or even negative effects. Based on these facts, the following hypothesis has been proposed:

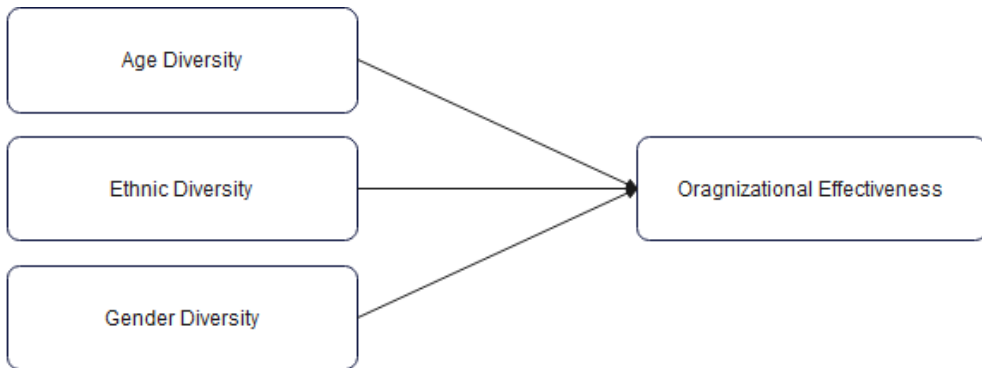
H₂: Ethnic diversity has significant impact on organizational effectiveness

Gender Diversity and Organizational Effectiveness

Gender diversity has been widely recognized as a crucial factor in enhancing organizational effectiveness. Research consistently shows that organizations with a higher proportion of women in leadership and across various levels of the workforce tend to outperform their less diverse counterparts in several key performance areas. McKinsey & Company (2020) found that companies in the top quartile for gender diversity on executive teams were 25% more likely to have above-average profitability compared to companies in the fourth quartile. This correlation can be attributed to the fact that gender-diverse teams bring a wider range of perspectives and ideas, which fosters creativity and innovation (Catalyst, 2019). Furthermore, teams with diverse backgrounds are more adept at understanding and addressing the varied needs of a broad customer base, which ultimately enhances customer satisfaction and fosters greater loyalty (Hunt et al., 2018). Gender diversity also contributes to a more inclusive work environment, which enhances employee engagement and reduces turnover rates (Gomez-Mejia et al., 2020). Herring (2009) and Hoogendoorn et al. (2013) further support this, showing that gender diversity can lead to higher sales revenue, more customers, and greater market share. Furthermore, gender diversity in leadership roles sets a positive example for the entire organization, promoting a culture of meritocracy and equal opportunity. This cultural shift not only attracts top talent but also enhances the organization's reputation, making it a preferred employer for high-caliber candidates (Smith et al., 2018). Therefore, gender diversity is not just a moral or ethical imperative but a strategic advantage that drives organizational success and sustainability. These facts support to develop the following hypothesis:

H₃: Gender diversity significantly influences organizational effectiveness

Based on the above literature review and hypotheses, the following research model has been proposed:

Figure 1*Proposed Research Model*

Note. Chatman & Flynn (2001)

On the basis of above research model, the following regression models has been developed:

$$OE = \beta_0 + \beta_1AD + \beta_2ED + \beta_3GD + e_i$$

Where,

β_0 = The intercept (constant term),

OE = Organizational Effectiveness,

AD = Age Diversity,

ED = Ethnic Diversity,

GD = Gender Diversity,

e_i = error terms

III. Methodology

Both descriptive and causal-comparative research designs have been used in this study to attain the stated objectives. The descriptive research design aimed to outline the characteristics of various predictors of workforce diversity while the causal-comparative research design focused on identifying the cause-and-effect relationships between these predictors and organizational effectiveness of Nepalese commercial banks. The population for this study comprises all the managerial-level employees holding various positions across different branches of commercial banks within the Kathmandu Valley. Out of those, 210 respondents were selected as the sample of the study using a purposive sampling technique. According to Hoe (2008), a sample size exceeding 200 is adequate for multivariate data analysis. Managerial employees were chosen because they are involved in the policy formulation process and can provide more precise and detailed information about the study. Primary data was collected through a structured questionnaire employing a 5-point Likert scale for response measurement. The questionnaire was distributed via personal visits, email, and social media applications. Out of 280 distributed questionnaires, 225 were returned, resulting in 80.36% response rate, which is generally considered satisfactory (Babbie, 2016). For data analysis, 210 responses were utilized after excluding 15 due to multiple non-responses. Smart PLS 4 was used for analyzing the data. Cronbach's Alpha was employed to assess

the reliability of the constructs of the study. For the descriptive analysis of the data, measures such as mean, standard deviation, and correlation coefficient were applied to summarize the characteristics and relationships among the study variables. Additionally, multiple regression analysis was employed to evaluate the impact of different aspects of work-force diversity on organizational effectiveness of Nepalese commercial banks.

IV. Results and Discussion

Demographic Profile of the Respondents

Table 1

Demographic Profile of the Respondents

Variables	Frequency	Percent
Gender		
Male	121	57.62
Female	89	42.38
Marital Status		
Married	195	92.86
Unmarried	15	7.14
Age		
25-35	15	7.14
36-45	82	39.05
46-55	84	40
Above 55	29	13.81
Academic Qualification		
Bachelor	25	11.9
Above Bachelor	185	88.1
Work Experience		
Up to 5 years	34	16.19
6-10 years	64	30.48
11-15 years	75	35.71
Above 15 years	37	17.62
Ethnicity		
Brahman and Chhetri	97	46.19
Adibasi and Janajati	62	29.52
Madheshi	21	10
Dalit	13	6.19
Backward Area	17	8.1
Job Position		
General Manager	13	6.19
Manager	87	41.43
Deputy Manager	65	30.95
Assistant Manager	45	21.43

Note. Field survey, 2024

The respondents in this study have a wide range of demographic and socio-economic backgrounds. Out of 210 respondents, 57.62% are male and 42.38% are female. Out of them 92.86% respondents are married and 7.14% are unmarried. Out of the respondent 7.14% belongs to the age group 25-35 years, 39.05% belongs to 36-45 years, 40% belongs to 46-55

years and 13.81% belongs to above 55 years. Regarding academic qualifications, 11.90% have bachelor degree and remaining 88.10% have master and above degree. Regarding work experience, 16.19% respondents have up to 5 years' experience, 30.46 % have 6-10 years' experience, 35.71% have 11-15 years' experience and 17.62% have more than 15 years' experience. In terms of ethnicity, 46.19% respondents belong to Brahman and Chhetri, 29.52%Adibasi and Janajati, 10 %Madheshi, 6.19%dalit and 8.10% respondents belongs to backward area. Similarly, 6.19% respondents hold general manager level position,41.43% have manager, 30.95% have deputy manager and 21.43% have assistant manager level position.

Reliability Analysis and Descriptive Statistics

Table 2 presents the reliability analysis results using Cronbach's Alpha for the study constructs. Ethnic Diversity (4 items) has a Cronbach's Alpha of 0.777, Gender Diversity (5 items) 0.849, Age Diversity (5 items) 0.763 and Organizational Effectiveness (5 items) 0.798. All constructs have Alpha values above 0.7, indicating that the items within each construct reliably measure their respective concepts. Furthermore, the descriptive analysis revealed that the mean scores for Ethnic Diversity, Gender Diversity, Age Diversity, and Organizational Effectiveness were 3.528, 3.797, 3.953, and 3.647, respectively, with corresponding standard deviations of 0.550, 0.691, 0.569, and 0.683. All the four constructs were perceived to be in the satisfactory state by the respondents as all of them exceeded the mid-point of 3 in a five-point Likert scale ranging 1 as strongly dissatisfactory and 5 as strongly satisfactory.

Table 2

Descriptive Statistics

Constructs	Cronbach Alpha	No of Items	Mean	Standard Deviation	1	2	3	4
1. Ethnic Diversity	0.777	4	3.528	0.550	1			
2. Gender Diversity	0.849	5	3.797	0.691	0.023	1		
3. Age Diversity	0.763	5	3.953	0.569	-0.027	0.050	1	
4. Organizational Effectiveness	0.798	5	3.647	0.683	0.108	0.156*	0.439**	1

*Correlation is significant at the 0.05 level (2-tailed). **Correlation is significant at the 0.01 level (2-tailed).

The correlation analysis indicated that Ethnic Diversity had a weak positive relationship (r = 0.108) with Organizational Effectiveness, which was not statistically significant. Gender Diversity exhibited a weak positive correlation (r = 0.156) with Organizational Effectiveness, reaching statistical significance at the 1% level. Age Diversity showed a moderate positive correlation (r = 0.439) with Organizational Effectiveness, and this relationship was statistically significant at the 1% level. The correlations between the diversity measures themselves were very weak, suggesting minimal interdependence. In summary, while Ethnic and Gender Diversity had weaker associations with Organizational Effectiveness, age diversity had a more substantial and significant positive impact.

Model Fit Measures

As shown in table 3, the F-statistic is 19.419 with a p-value of 0.000, the regression model is statistically significant by explaining the variability in Organizational Effectiveness. The R-square value of 0.225 means that approximately 22.5% of the variance in Organizational

Effectiveness is explained by Ethnic Diversity, Age Diversity, and Gender Diversity. The Durbin-Watson statistic of 1.742 indicates no significant autocorrelation in the residuals, and the Variance Inflation Factor (VIF) values, all close to 1, show no multicollinearity among the predictors. Overall, the model appears robust, with its predictors significantly contributing to the explanation of Organizational Effectiveness.

Table 3

Regression Coefficients

Variables	Standardized coefficients	SE	T value	P value	VIF
Age Diversity	0.436	0.075	7.009	0	1.003
Ethnic Diversity	0.117	0.077	1.883	0.061	1.001
Gender Diversity	0.131	0.061	2.107	0.036	1.003
Intercept	0	0.46	1.243	0.215	

F-statistic: 19.419, p-value: 0.000, R-square : 0.225, R-square adjusted: 0.213, Durbin-Watson test: 1.742

Test of Hypotheses

This study seeks to explore the influence of workforce diversity on organizational effectiveness, aiming how diverse employee backgrounds contribute to overall performance, innovation, and adaptability within the organization. Using a multiple regression analysis, the study investigates the roles of ethnic, gender, and age diversity as predictors of organizational effectiveness in Nepalese commercial banks. According to the output of regression analysis as shown in table 3, Age Diversity ($\beta=0.436$, $p = 0.000$) was found to be significant predictor of Organizational Effectiveness. Hence, H1 is accepted. Ethnic Diversity did not predict Organizational Effectiveness significantly ($\beta=0.117$, $p=0.061$). Hence, H2 is rejected. Gender Diversity ($\beta=0.131$, $p=0.036$) H3 is also supported. These findings underscore the importance of considering Gender and Age Diversity to enhance organizational performance within the Nepalese banking sector. Table 5 given below provides the summary of hypothesis testing followed by figure 2 presenting the final research model.

Table 5

Summary of Hypotheses Testing

Hypotheses	Statements	P Value	Remarks
H ₁	Age diversity significantly influences organizational effectiveness	0.000	Supported
H ₂	Ethnic diversity has significant impact on organizational effectiveness	0.061	Rejected
H ₃	Gender diversity significantly influences organizational effectiveness	0.036	Supported

On the basis of above analysis and hypothesis testing the following final model has been developed relating to work-force diversity and organizational effectiveness.

Discussion

The primary objective of this study was to examine the influence of workforce diversity

on organizational effectiveness within Nepalese commercial banks. The organizational effectiveness has been studied with various dimensions of diversity showing different effects. The study demonstrates that employee inclusion plays a crucial role in shaping organizational effectiveness (Shrestha, 2019). By fostering a positive and inclusive workplace culture that values diverse perspectives, employee inclusion significantly enhances collaboration, innovation, and employee motivation. These factors collectively contribute to improved organizational effectiveness (Shrestha, 2019).

In the context of Nepalese commercial banks, evidence suggests that age diversity and gender diversity significantly enhance organizational effectiveness, while ethnic diversity does not have a notable impact. Age diversity brings together employees with varying levels of experience, perspectives, and problem-solving approaches, which can lead to more innovative solutions and improved decision-making processes. Additionally, the inclusion of both younger and older employees helps in catering to a diverse customer base, fostering better customer relations, and enhancing service quality (Ng & Feldman, 2013). The findings align with research by Barrington and Troske (2001), Wegge et al. (2008), and Algahtani (2013). Nepalese commercial banks employ employees of diverse ages and experiences, fostering a comfortable environment for collaboration among different age groups and experienced individuals, thereby enhancing organizational effectiveness.

Gender diversity, on the other hand, contributes to organizational effectiveness by promoting a more inclusive work environment, which can boost employee morale, reduce turnover rates, and improve organizational commitment. Studies have shown that gender-diverse teams are more likely to exhibit higher levels of creativity and collaboration, which are critical for competitive advantage in the banking sector (Campbell & Mínguez Vera, 2008). The findings of the study align with the prior studies Eagly & Wood (1991), Kochan et al., (2003), Leonard & Devine (2003), Emiko & Eunmi (2009), Weiliang et al. (2011) and Raaza Naqvi et al. (2013) which showed that gender diversity has a significant positive impact on organizational effectiveness.

However, ethnic diversity does not seem to have a significant impact on organizational effectiveness in Nepalese commercial banks. This could be due to the relatively homogeneous nature of the ethnic groups within the banks or the possibility that ethnic diversity is not yet effectively leveraged within these organizations (Hofhuis et al., 2012). Therefore, while age and gender diversity are key drivers of enhanced organizational performance, efforts to improve ethnic diversity should be coupled with strategies to better integrate and utilize the diverse talents within the workforce to realize its potential benefits.

V. Conclusion and Implication

Based on the findings of this study on workforce diversity in Nepalese commercial banks, it is evident that age and gender diversity play crucial roles in influencing organizational effectiveness. The presence of diverse age groups and gender representation within teams correlates positively with improved employee performance, job satisfaction, and overall organizational success. However, ethnicity diversity, as observed in this research, does not show a significant impact on these outcomes. These findings underscore the importance of fostering age and gender diversity as strategic priorities in human resource management practices within the banking sector of Nepal, aimed at enhancing organizational resilience and competitiveness in a dynamic market environment. These insights suggest that while age and gender diversity should be prioritized in organizational diversity initiatives. Future research could delve deeper into understanding the nuanced impacts of cultural diversity beyond ethnicity to provide comprehensive insights for organizational diversity strategies.

The findings of this study underscore several implications for managers and policymakers within Nepalese commercial banks. Firstly, promoting workforce diversity not only fosters a more inclusive organizational culture but also enhances employee satisfaction and engagement, which improves overall organizational effectiveness. Secondly, effective management of workforce diversity requires proactive strategies to mitigate potential challenges such as communication barriers or cultural differences, which can hinder collaboration and productivity. Recognizing and valuing diversity can bolster the bank's reputation as a socially responsible organization, appealing to a broader customer base and attracting top talent in the competitive banking industry.

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