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CULTURAL DIVERSITY AND EMPLOYEE RETENTION IN TIER 1 COMMERCIAL BANKS IN NAIROBI COUNTY, KENYA

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ABSTRACT
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Kenya's banking sector contributes largely to economic development through employment creation and provision of financial services. However, with globalisation and cultural shifts, retaining skilled and experienced employees has become a challenge. Recent evidence indicates that annual employee turnover reported to range between 10% and 15%. Therefore, the general objective of the study was to examine the influence of cultural diversity on employee retention in Tier 1 Commercial Banks in Nairobi County, Kenya. The study was anchored on the Social Identity/Categorization Theory. A correlational research design was adopted. The target population was 162 employees drawn from the human resource, finance, operations, customer service, marketing, and ICT departments across the nine Tier 1 Commercial Banks in Nairobi County. Stratified random sampling design was used to sample 115 respondents proportionately distributed across the six departments. Primary data was collected using a structured questionnaire administered through Google Forms. A pilot study was conducted at the Kenya Commercial Bank, Mombasa Branch. The study employed both descriptive and inferential statistics, analysed using the Statistical Package for Social Sciences (SPSS version 21), and data was presented in the form of tables. From the findings, the study concluded that cultural diversity has a statistically significant positive influence on employee retention in Tier 1 Commercial Banks in Nairobi County, Kenya ($\beta = 0.282$, $p = 0.000$; $r = 0.825$, $p = 0.000$). Based on the findings and the conclusions of the study, the researcher recommends that Tier 1 Commercial Banks embrace employees' distinct cultural identities, establish dedicated conflict-resolution mechanisms to manage cultural value clashes, and develop comprehensive cross-cultural training programmes to strengthen workforce cohesion.

KEYWORDS: *Cultural Diversity, Employee Retention, Globalisation*

I. BACKGROUND OF THE STUDY

Cultural diversity has become an important feature of contemporary organizations as globalization, labour mobility and changing workforce demographics have brought together employees with different ethnic, regional, linguistic, religious, social and cultural backgrounds. Cultural diversity refers to the coexistence of individuals with different values, beliefs, traditions, norms, languages and social identities within a workplace (Agrawal, 2022). When effectively managed, diversity can provide organizations with broader perspectives, enhance creativity, improve problem-solving and facilitate knowledge sharing. However, unmanaged cultural differences can also generate communication barriers, interpersonal conflict, social categorization and perceptions of exclusion, which may influence employees' attitudes towards their organizations (Chapman et al., 2023). Recent research indicates that workplace inclusion is particularly important in determining whether diversity produces positive employee outcomes. For instance, Sharma and Panicker (2022) found that workplace inclusion influences the relationship between workforce diversity and employees' intention to quit, suggesting that employees who perceive their workplace as inclusive are less likely to develop intentions to leave. Similarly, diversity and inclusion have been associated with stronger employee engagement and lower turnover intentions, indicating that organizations that effectively manage workforce diversity may be better positioned to retain skilled employees (Panicker, 2022).

In the context of commercial banking, cultural diversity encompasses differences in ethnicity, regional origin, language, values, beliefs, age, gender and social backgrounds among employees. These differences are particularly relevant because banks serve customers from diverse communities and therefore require employees who can understand and respond effectively to different customer needs. The Kenyan banking sector has also undergone considerable technological and organizational transformation, increasing the need for skilled, adaptable and collaborative employees. According to the Central Bank of Kenya (CBK, 2025), the number of employees in commercial banks increased from 32,440 in 2021 to 38,840 in 2024, while the number of deposit account holders increased substantially to 114.2 million in 2024.

Employee retention refers to an organization's ability to maintain its employees and encourage them to remain within the organization over a specified period. Retention is particularly important in commercial banking because experienced employees possess valuable technical knowledge,

customer relationships, institutional memory and specialized skills that are costly and time-consuming to replace. High employee turnover can increase recruitment and training costs, reduce productivity, disrupt customer relationships and weaken organizational knowledge. Evidence suggests that employee retention remains a challenge within Kenyan commercial banks. Nzyimi (2024) reported that employee turnover in Kenyan commercial banks has remained significant, with annual turnover rates estimated at approximately 10% to 15%.

Within Tier 1 commercial banks in Nairobi County, the issue of cultural diversity and employee retention is particularly significant because these institutions operate in a highly competitive environment for skilled human capital. Banks require employees with specialized competencies in areas such as relationship management, digital banking, risk management, information technology, finance and customer service. The loss of experienced employees can therefore undermine service continuity and increase the cost of replacing specialized talent. Nduru (2024), in a study of foreign-owned banks in Kenya, found that cultural dimensions had significant and varying effects on employee retention. In particular, power distance and masculinity positively influenced retention, whereas individualism and uncertainty avoidance had negative influences, demonstrating that cultural factors can shape employees' willingness to remain within banking organizations.

Statement of the Problem

Kenya's banking sector is an important contributor to economic development through financial intermediation, employment creation and provision of financial services. The sector has also experienced substantial growth in its workforce, with employment in commercial banks increasing from 32,440 employees in 2021 to 36,107 in 2022, representing an 11.3% increase (Central Bank of Kenya [CBK], 2023). However, the growth in employment has been accompanied by persistent challenges in retaining skilled and experienced employees. Recent evidence indicates that employee retention remains a concern in Kenyan commercial banks, with annual employee turnover reported to range between 10% and 15% (Nzyimi, 2024). The challenge is particularly evident among Tier 1 institutions. For instance, Equity Bank Kenya, one of the country's largest Tier 1 commercial banks, recorded an employee retention rate of only 81% in 2023, meaning that approximately 19% of its workforce did not remain with the bank during the period. The bank also recorded a net exit of 415 employees, with its workforce declining from 8,178 employees in 2022 to 7,763 in 2023 (Mwangi, 2024). Such levels of employee exits can increase recruitment and training costs, weaken institutional knowledge and disrupt service delivery, thereby creating a significant human-resource challenge for commercial banks therefore the study

Research Hypothesis

$H0_1$: Cultural diversity has no statistically significant influence on employee retention in Tier 1 Commercial Banks in Nairobi County, Kenya.

II. THEORETICAL FRAMEWORK

This study was anchored on the **Social Identity/Categorization Theory**, proposed by Henry Tajfel and John Turner in 1979. The theory explains how individuals define themselves and others based on membership in social groups such as ethnicity, gender, nationality, religion and organizational affiliation (Tajfel & Turner, 1979). Individuals naturally categorize themselves and others into an in-group, comprising people perceived to share similar characteristics, and an out-group, consisting of those perceived as different. In culturally diverse workplaces, these categorizations can influence employees' attitudes, communication, interpersonal relationships and behaviour. Positive identification with different cultural groups may promote cooperation and knowledge sharing, while strong in-group and out-group distinctions may create stereotyping, prejudice, discrimination and social exclusion (Turner et al., 1987). The theory is relevant to this study because employees' perceptions of cultural identity and group membership can influence their sense of belonging, organizational identification and willingness to remain with an organization. Where employees perceive that their cultural backgrounds are respected, valued and fairly represented, they are likely to develop stronger organizational commitment and attachment, thereby enhancing employee retention.

Empirical Review

Raewf & Mahmood, (2021) analyzed the cultural diversity at work together with its role towards organizational success. The target population of the research was the medical companies that are trading of medical equipment and laboratory in Kurdistan region of Iraq. The study centered on 200 participants and 100 e-questionnaires were sent out to the administrative staff of the said companies. The data collected was analyzed by way of the Cronbach's alpha. The findings of the study were that there is increased affection in organizations that deal with multicultural employees. Although this study focused on cultural diversity it had no direct analysis to employee retention. The study also presented a contextual gap as it was conducted in Iraq; there was also sectoral gap, with the unit of analysis being medical companies, whereas the current study is on the banking sector. Overall, a critical review reveals a clear research gap and absence of empirical evidence on cultural diversity and employee retention within Tier 1 banks in Nairobi, Kenya.

Ely and Thomas (2021) examined the relationship between cultural diversity and organizational performance, adopting a mixed-methods approach across multiple organizational settings. The findings revealed that organizations which actively leveraged cultural diversity through inclusive practices experienced improved collaboration, innovation, and employee commitment, while those that failed to manage cultural differences experienced heightened interpersonal conflict.

Mor Barak (2021) explored diversity management practices toward building a globally inclusive workplace, drawing on evidence from multinational organizations. The study established that inclusive organizational cultures which actively valued cultural differences enhanced employees' sense of belonging, thereby strengthening organizational commitment and reducing turnover intentions.

Chapman, Nasirov, and Özbilgin (2022) investigated the relationship between workforce diversity, diversity charters, and collective turnover across organizations, applying a longitudinal analytical approach. The findings indicated that

greater workforce racial and cultural diversity was associated with variable turnover outcomes depending on the strength of organizational diversity charters and inclusion mechanisms in place.

While these studies converge on the significance of cultural diversity management in shaping workforce outcomes, they were largely conducted outside the Kenyan banking context, in settings such as Iraq's medical trading sector and Western multinational organizations, leaving a contextual gap regarding Tier 1 commercial banks in Kenya. This study sought to address this gap by examining the influence of cultural diversity on employee retention within Tier 1 Commercial Banks in Nairobi County, Kenya.

Conceptual Framework

Independent Variable **Dependent Variable**

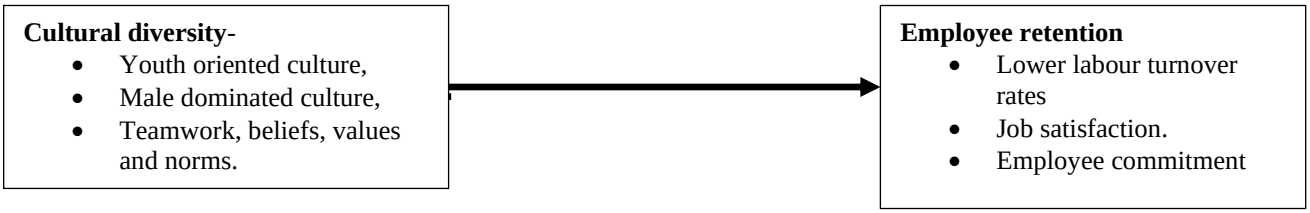


Figure 1: Schematic representation of variable

Source: Author (2026)

III. METHODOLOGY

The study adopted a correlational research design. The target population was 162 employees comprising top, middle, and lower-level management drawn from the human resource, finance, operations, customer service, marketing, and ICT departments of the nine Tier 1 Commercial Banks in Nairobi County, Kenya. The study used a stratified random sampling design, applying the Yamane (1967) formula, to sample 115 respondents proportionately distributed across the six departments and three management levels. The researcher collected primary data using a structured, closed-ended questionnaire administered through Google Forms. A pilot study was conducted at the Kenya Commercial Bank, Mombasa Branch, and reliability testing using Cronbach's Alpha yielded a coefficient of 0.854 for the cultural diversity construct, exceeding the acceptable threshold of 0.7. Both descriptive and inferential statistics were determined using the Statistical Package for Social Sciences (SPSS version 21). Data was presented in the form of tables.

IV. RESULTS

Response Rate

The researcher distributed 115 questionnaires, out of which 98 were returned duly filled. This resulted in a response rate of 85%, indicating a strong level of participation among the targeted respondents.

Table 1: Response Rate

Category	Frequency	Percentage (%)
Response returned	98	85
Unreturned responses	17	15
Total	**115**	**100%**

Descriptive Findings for Cultural Diversity

The study further sought to determine the level of agreement of the respondents on the statements on cultural diversity at Tier 1 Commercial Banks in Nairobi County. The findings are presented in Table 2

Table 2: Cultural Diversity

Statement	SA %	A %	N %	D %	SD	Mean	Std
The organization constantly experiences cultural value clashes	23.5	51.0	13.3	12.2	0	3.8571	.9194
60% of employees within the organization share the same cultural orientation	29.6	30.6	12.2	24.5	3.1	3.5918	1.2339
The organization values each employee's distinct cultural aspect.	30.6	38.8	18.4	12.2	0	3.8776	.9872
Employees in the organization have continually developed low self-esteem because of their cultural backgrounds	40.8	28.6	18.4	12.2	0	3.9796	1.0452
Overall (Mean & SD)						**3.7041**	**1.0814**

SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=Strongly Disagree

From the findings, 23.5% of respondents strongly agreed that the organization constantly experiences cultural value clashes, 51.0% agreed, 13.3% were neutral, and 12.2% disagreed, with a mean of 3.857 and a standard deviation of 0.919. This

suggests that a majority of respondents recognize the frequent occurrence of cultural value clashes, pointing to the complexities of managing a culturally heterogeneous workforce within Tier 1 banks. This finding contrasts with Raewf and Mahmood (2021), who observed predominantly positive affective outcomes in organizations dealing with multicultural employees within Kurdistan-based medical trading companies, suggesting that the banking sector context in Nairobi presents distinct integration challenges not encountered in the Iraqi medical sector.

In addition, 30.6% of respondents strongly agreed that the organization values each employee's distinct cultural aspect, 38.8% agreed, 18.4% were neutral, and 12.2% disagreed, with a mean of 3.878 and a standard deviation of 0.987. This reflects a generally positive perception of the banks' inclusivity, indicating that a significant majority feel their distinct cultural backgrounds are recognized. This aligns with Ely and Thomas (2021), who found that organizations which actively valued cultural differences experienced improved collaboration and employee commitment. The findings further reveal that 40.8% of respondents strongly agreed that employees have continually developed low self-esteem because of their cultural backgrounds, 28.6% agreed, and 18.4% were neutral, with a mean of 3.980 and a standard deviation of 1.045. This highlights a critical concern, as strong agreement on this statement suggests that despite organizational appreciation of distinct cultures, prevailing cultural dynamics or clashes negatively impact the psychological well-being of a substantial portion of the workforce, a finding consistent with Mor Barak (2021), who cautioned that unmanaged cultural friction can undermine the benefits of an otherwise inclusive workplace.

Employee Retention

The respondents were asked to indicate their level of agreement with statements on employee retention at Tier 1 Commercial Banks in Nairobi County. The findings are presented in Table 3.

Table 3: Employee Retention

Statement	SA %	A %	N %	D %	SD	Mean	Std
The bank's annual labour turnover is low	23.5	51.0	13.3	12.2	0	3.8571	.9194
I am satisfied with my current role within the bank	14.4	51.7	21.2	9.3	3.4	3.6441	.95654
If offered another job opportunity with another bank I would quit my current job	6.8	23.9	45.3	21.4	2.6	3.1111	.90761
Employees in the bank have a sense of identity that rises their commitment to work	29.6	30.6	12.2	24.5	3.1	3.5918	1.2339
A high number of employees from other banks or organizations are attracted and desire to work at our bank due to its diversity management practices	30.6	38.8	18.4	12.2	0	3.8776	.9872
Overall (Mean & SD)						**3.7041**	**1.0814**

Key: SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree

The findings indicate that 23.5% of respondents strongly agreed that the bank's annual labour turnover is low, 51.0% agreed, 13.3% were neutral, 12.2% disagreed, and 0% strongly disagreed, with a mean of 3.8571 and a standard deviation of 0.9194. This suggests that a majority of respondents recognize the existence of stable retention levels as contributing to workforce continuity and improved organizational performance. This agrees with Wakarindi (2024), who established a positive and statistically significant relationship between diversity, equity and inclusion practices and employee retention among luxury hotels in Nairobi County, confirming that low turnover is a plausible outcome of effective diversity management in the wider Kenyan service sector.

The findings further reveal that 14.4% of respondents strongly agreed that they are satisfied with their current role within the bank, 51.7% agreed, 21.2% were neutral, 9.3% disagreed, and 3.4% strongly disagreed, with a mean of 3.6441 and a standard deviation of 0.95654. This indicates moderate agreement that role satisfaction contributes to alleviating staff attrition pressures, though the presence of disagreement points to variation in the perceived fulfilment of employee expectations across the banks. This corroborates Torsabo and Ezekiel (2021), who found that the work environment, a construct closely related to role satisfaction, influenced employee retention by 30.9% among staff at Adamawa State University, Mubi, Nigeria, affirming role-level satisfaction as a consistent driver of retention across different institutional settings.

In addition, 6.8% of respondents strongly agreed that if offered another job opportunity with another bank they would quit their current job, 23.9% agreed, 45.3% were neutral, 21.4% disagreed, and 2.6% strongly disagreed, with a mean of 3.1111 and a standard deviation of 0.90761. This indicates a cautious or mixed perception regarding flight risk, with the exceptionally high proportion of neutral responses suggesting uncertainty or conditionality concerning their intent to leave for alternative opportunities. This finding contrasts somewhat with Rodprayoon and Maj (2021), who found that diversity and inclusion in workplace engagement and perceived organizational support positively and significantly affected employee retention during the COVID-19 pandemic; the high proportion of neutral responses recorded here suggests that, outside a pandemic-driven context, employees' flight risk is more ambivalent and less firmly anchored to organizational support alone.

Moreover, 29.6% of respondents strongly agreed that employees in the bank have a sense of identity that raises their commitment to work, 30.6% agreed, 12.2% were neutral, 24.5% disagreed, and 3.1% strongly disagreed, with a mean of 3.5918 and a standard deviation of 1.2339. This highlights

mixed perceptions regarding the effectiveness of identity-building efforts, with the high standard deviation and notable proportion of disagreement suggesting that the outcomes of organizational commitment initiatives are not uniformly experienced across respondents. This agrees with Chapman et al. (2022), who found that diversity based on demographic and socio-economic factors significantly impacted employee turnover among United Kingdom-based organizations, confirming that identity-related commitment mechanisms tied to diversity management meaningfully shape retention outcomes, albeit with variable strength.

Finally 30.6% of respondents strongly agreed that a high number of employees from other banks or organizations are attracted and desire to work at their bank due to its diversity management practices, 38.8% agreed, 18.4% were neutral, 12.2% disagreed, and 0% strongly disagreed, with a mean of 3.8776 and a standard deviation of 0.9872. These points to a general acknowledgment that strong diversity practices successfully enhance the bank's external employer brand and attract outside talent. This is consistent with Wakarindi (2024), who established a positive and statistically significant relationship between diversity, equity and inclusion practices and employee retention among luxury hotels in Nairobi County, reinforcing that effective diversity management strengthens external employer attractiveness across Kenyan service industries. The findings are consistent with study by Eusebius and Chukwudi (2023), whom argued that there is a positive relationship between diversity dimensions and retention-related outcomes. However, the comparatively weaker and more variable agreement recorded on flight risk and on the direct translation of diversity management into retention diverges from the stronger effects.

Inferential Statistics

The study conducted a Pearson correlation to determine the strength and direction of the relationship between cultural diversity and employee retention. The findings are presented in Table 4.

Table 4 : Correlation Results

		Cultural Diversity
Employee Retention	Pearson Correlation	.825**
	Sig. (2-tailed)	.000
	N	98

The study found a strong and positive statistically significant relationship between cultural diversity and employee retention ($r = 0.825$; $p = 0.000 < 0.01$). This means that recognizing distinct cultural aspects, effectively managing cultural value clashes, and safeguarding employee self-esteem against cultural biases significantly enhances employee retention. These results are consistent with Ely and Thomas (2021), who found that organizations actively leveraging cultural diversity experienced strengthened employee commitment.

Table 5 : Co-efficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	.647	.172		3.762	.000
	Cultural Diversity	.282	.065	.273	4.309	.000
a. Dependent Variable: Employee Retention						

From the findings in Table 6, a unit increase in cultural diversity would lead to a 0.282-unit improvement in employee retention (Beta = 0.273, t = 4.309, p = 0.000). Holding other factors constant, this confirms that formally recognizing distinct cultural aspects, resolving cultural value clashes, and protecting employee psychological safety substantially strengthens workforce cohesion and institutional loyalty within Tier 1 Commercial Banks.

$$Y = 0.647 + 0.282X$$

Hypothesis Testing

The null hypothesis (H01) stated that cultural diversity has no statistically significant influence on employee retention in Tier 1 Commercial Banks in Nairobi County, Kenya. The regression results revealed a positive and statistically significant effect of cultural diversity on employee retention, with an unstandardized coefficient of $\beta = 0.282$ and a p-value of 0.000, which is less than the 0.05 significance level, leading to the rejection of the null hypothesis. The correlation analysis also indicated a strong positive relationship between cultural diversity and employee retention ($r = 0.825$, $p = 0.000$). These findings suggest that formal recognition of distinct cultural identities, effective management of cultural value clashes, and protection of employee psychological well-being strengthen interpersonal harmony, reduce workplace friction, and improve institutional loyalty. Tier 1 Commercial Bank management is therefore encouraged to institutionalize cultural integration strategies and continuously safeguard employee well-being against cultural biases.

V. CONCLUSION

The study concluded that cultural diversity has a statistically significant positive influence on the retention of employees at Tier 1 Commercial Banks in Nairobi County, Kenya. Banks that actively recognize distinct cultural aspects, manage cultural value clashes, and protect employee psychological safety against cultural biases are more likely to minimize workplace friction, reduce social isolation, and improve retention. Recognizing cultural diversity anchors top talent by fostering a profound sense of belonging and institutional respect, consistent with the Social Identity Theory, which holds that robust cultural inclusion systems significantly improve group

cohesion and mitigate out-group friction in diverse organizational structures.

VI. RECOMMENDATIONS

The study recommends that human resource managers in Tier 1 Commercial Banks foster robust cultural integration by formally recognizing and celebrating distinct cultural aspects within the workforce. Banks should establish dedicated conflict-resolution mechanisms to promptly and effectively manage cultural value clashes before they escalate. Management should leverage frequent employee diversity audits and feedback channels to ensure that the work environment actively safeguards against cultural biases and protects employee self-esteem. Developing comprehensive cross-cultural training programmes will build interpersonal harmony, foster mutual respect, and reduce the social isolation that drives attrition, thereby strengthening employee retention within Kenya's competitive banking sector.

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