

IMPACT OF WORKFORCE DIVERSITY ON PROFITABILITY OF FIRMS LISTED ON THE ZIMBABWE STOCK EXCHANGE

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ABSTRACT

The study employed the quantitative methodology to establish the impact of workforce diversity on firm performance measured by profitability of thirty-five (35) firms listed on the Zimbabwe Stock Exchange using panel data collected over the period 2009 – 2015. Board gender and executive diversity were found to have a positive and significant impact on profitability as measured by returns per share and gross profit whilst board education diversity was found to have a positive and significant impact on profitability as measured by gross profit. Geographic location diversity was found to have a negative and significant impact on profitability as measured by returns per share and gross profit. Whether a firm is located in the rural areas had a positive and significant impact on profitability as measured by gross profit. The study recommends that companies should come up with diversity-enabling policies in order to enhance firm performance.

KEYWORDS

Workforce diversity, returns per share, Zimbabwe Stock Exchange

1. INTRODUCTION

This paper explores the impact of workforce diversity on firm performance of firms listed on the Zimbabwe Stock Exchange (ZSE) for the period 2009-2015. Inequality and discrimination still widely exist and human resource management has focused mainly on compliance on equal employment opportunities (EEO) and affirmative action (AA) legislation yet there has been less attention on valuing and developing workforce diversity (Wilton, 2011). The workforce diversity issues vary by country. Western countries, EU nations, New Zealand and Australia have focused on multiculturalism yet many emerging economies find it difficult to invest in diversity (Shen et al, 2009). The firms are under pressure to implement diversity such that they are accepted in the markets they operate in (Ganero et al, 2013).

The workforce has become diverse due to migration, women participation in the workforce, technological changes and changes in age. Organisations manage diversity in order to create enjoyable working environments, improve creativity and innovation, employee collaboration, reduce peer pressure, strengthens cultural values and helps attract and retain highly talented staff (Atyah, 2015). There are however challenges associated with managing a diverse workforce which include gender-based hostilities and discrimination, decrease in social ties, resistance to change, increased turnover and absenteeism, poor communication among employees, prejudice and ethnocentrism (Mpofu et al., 2019; Isawu et al., 2018; Wilton, 2011; Henry & Evans, 2007; Chemers et al., 1995).

There are few studies which have investigated the impact of workforce diversity to firm performance measured by profitability. This study seeks to investigate the impact of workforce diversity on firm performance as measured by profitability of ZSE listed firms for a seven-year period from 2009 to 2015. In this study, we argue that workforce diversity positively impacts firm performance.

2. METHODOLOGY

The study employed the quantitative methodology to analyse the impact of workforce diversity on firm performance for firms listed on the Zimbabwe Stock Exchange for the period 2009-2015. Firm performance was estimated using profitability as measured by returns per share. The panel corrected standard errors regression (PCSE) analysis model was used to measure the impact of workforce diversity on firm performance. Workforce diversity variables were board gender, executive, education level, geographic location and rural location. Workforce diversity was measured using the Blau index.

The equation generated for measuring firm performance (returns per share) is shown below.

$$\text{RPS} = \alpha + \beta_1 \text{BLOC} + \beta_2 \text{BGEN} + \beta_3 \text{BEXEC} + \beta_4 \text{BED} + \beta_5 \text{BRURAL} + \beta_6 \text{FSIZE} + \beta_7 \text{ATO} + \beta_8 \text{CR} + \beta_9 \text{DR} + \beta_{10} \text{BSIZE} + \beta_{11} \text{FOOD} + \beta_{12} \text{FIN} + \beta_{13} \text{SERV} + \beta_{14} \text{REAL} + \beta_{15} \text{MANF} + \beta_{16} \text{YEARL} + \epsilon$$

2.1. Assumptions and Limitations

The study assumed that board workforce diversity improves firm performance and that firms are aware of the benefits of employing a diverse workforce. The study further assumed that company personal data for staff would not be released for use in the research due to the need to protect employee privacy. Firms are not comfortable releasing their employee personal data for research purposes.

The failure of firms to release their employee personal data meant that the study had to focus on secondary data for board members from the listed firms' websites. Access to personal human resource data in firms is not an easy task even if one declares the data would solely be used for research.

3. FINDINGS AND DISCUSSIONS

3.1. Impact of Diversity on Profitability as Measured by Returns Per Share

The panel corrected standard errors measure assumes that all the variables together do not significantly explain the variation in the dependent variable. In other words, all the variables together do not significantly explain the variation in profitability. The model Wald chi2 is 1960.80 and is highly significant at 1%.

All the significant model variables have expected signs except for location diversity (Blau_Location). A priori, firm size, asset turn-over, executive diversity, and gender diversity are expected to positively impact on firm profitability. A negative relationship was expected between firm profitability and the debt ratio and board size.

The variables which do not significantly affect firm's returns per share are current ratio (CURRENT_RATIO), debt ratio (DEBT_RATIO), board size (Board_Size), the number of years the firm has been listed on the ZSE (Years_Listed), education diversity (Blau_Education), and whether a firm is located in the rural areas or not (Location_Rural). The variables which are important in determining firm's returns per share are the size of the firm (FIRMSIZE), firm asset turn-over (ASSET_TURN_OVER), the sector in which the firm belongs, firm location diversity (Blau_Location), and firm gender diversity (Blau_Gender).

Table 1: Impact of diversity on returns per share

Variable	Coef.	Std. Err.	z	P> z
FIRMSIZE	0.0124759	0.0028718	4.34	0.000
Asset turn-over	0.0001209	0.0000218	5.54	0.000
Current ratio	0.0018441	0.0016509	1.12	0.264
Debt ratio	-0.015415	0.0130204	-1.18	0.236
Board Size	0.0002053	0.0020259	0.10	0.919
Sector Food Industry	0.0876048	0.0260727	3.36	0.001
Sector Financial	0.0542877	0.0325462	1.67	0.095
Sector Services	0.0893549	0.0317514	2.81	0.005
Sector Real Estate	0.025625	0.034102	0.75	0.452
Sector Industrial Manufacturing	0.0542181	0.030139	1.80	0.072
Years Listed	-0.0000667	0.0002159	-0.31	0.757
Blau Location	-0.0989853	0.0164634	-6.01	0.000
Blau Board Gender	0.1064898	0.0520627	2.05	0.041
Blau Executive	0.0910433	0.0483273	1.88	0.060
Blau Education	0.0612467	0.0647727	0.95	0.344
Location Rural	0.0222633	0.0175755	1.27	0.205
Cons	-0.3564861	0.0723822	-4.93	0.000
R ²	0.2541			
Wald chi2(13)	1960.80			
Prob > chi2	0.0000			

Board gender diversity is positively and significantly related to profitability as measured by returns per share. Anis et al (2017), also concur with the findings. Firms which include women and men have higher profitability than firms that have females or males only. Chemweno (2016) however, found a statistically insignificant relationship between board gender diversity and firm performance. An increase in board gender diversity may have a negative impact on firm performance due to the risk averse nature of women and their high turnover and absenteeism.

The existence of executive and non-executive board members has a positive and significant relationship with firm performance as measured by returns per share. Firms which have board members who are also employed in the firm are more profitable than those that have non-executive members only. Anis et al, (2017) noted that boards with non-executive directors improve the firm's economic performance under the agency theory whereas boards led by executive directors also work to increase shareholder income. Anis et al (2017) also noted from past empirical evidence that non-executive director-led boards are needed to provide external connections and to have better access to external resources. On the contrary, non-executive directors led boards may stifle management initiatives due to excessive monitoring.

Board education level has a negative and insignificant relationship with firm performance as measured by returns per share. Somathilake (2018) found a positive and insignificant relationship whilst Kim (2005) found that the board of directors' level of education was significantly associated with firm performance.

Location diversity has a negative and significant relationship with returns per share. Firms who are located in various geographic locations of Zimbabwe (ten provinces) have higher returns per share than firms that are in one or few locations. Firms are located in provinces where there is availability of raw materials, transport network and accessibility and customers.

Firms that are located in the rural areas are positively and insignificantly related to firm performance as measured by returns per share. Geographic location of firms matters in improving profitability. They are mainly associated with market valuation of the firm.

4. CONCLUSIONS

The study found board gender diversity to have a positive and significant impact on profitability as measured by returns per share. Board executive diversity was found to have a positive and significant impact on profitability as measured by returns per share whilst education diversity was found to have a positive and insignificant impact on profitability as measured by returns per share. Non-workforce diversity variables were also found to significantly affect firm performance. Geographic location diversity was found to have a negative and significant impact on profitability as measured by returns per share. Whether a firm is located in the rural areas had no significant impact on profitability as measured by returns per share.

This paper recommends that workforce diversity issues should be included in the national policies such as the Labour Act Chapter 28:01 and the Constitution of Zimbabwe. Without inclusion of diversity issues in the national codes and constitutions, it will be difficult for organisations to include and operationalise diversity policies in their HR policies. It will also be difficult for victims of diversity discrimination to seek and find redress.

Furthermore, most rural communities do not have functional business. The firms who are operational in rural areas often take up board members from the city centre. This study recommends that rural communities be included in doing business and subsequently participating in increasing workforce diversity at board level.

ACKNOWLEDGEMENTS

We would like to acknowledge the help of all who made it possible for this paper to be published.

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