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**Human Capital and Performance of Commercial Banks and Insurance
Firms in Kenya**

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The purpose of the study was to establish the influence of human capital on the performance of insurance firms and commercial banks in Kenya. The study adopted a descriptive cross-sectional survey design and a census survey was carried out on all the 43 licensed commercial banks and 45 insurance firms in Kenya. The target respondents were the Human Resources Managers and the questionnaire was the data collection instrument that was used. Out of the 88 firms that were targeted, 54 responded, constituting a response rate of 61%. Hypothesis was tested using simple linear regression analysis. Descriptive statistics were computed for organizational data and the main characteristics of the study variables. Data was presented in form of tables. The findings revealed that the influence of human capital on non-financial measures of firm performance was statistically significant. These results are consistent with existing literature which points out a positive effect of human capital on firm performance. A firm's human capital is an important source of sustained competitive advantage (Hitt et al., 2001) and therefore investments in the human capital of the workforce may increase employee productivity and financial results (Black and Lynch, 1996; Pfeffer, 1998; Snell and Dean, 1992). This study contributes to understanding the link between human capital and firm performance, while at the same time confirms the findings of previous studies that have found a significant link between human capital and firm performance. Organizations can enhance their human capital by embracing rigorous selection procedures and matching the right people with the right jobs. Academic qualifications and work experience should be considered during selection.

Key words: *Human Capital, Firm Performance, Commercial Banks, Insurance Firms, Kenya*

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1. Introduction

Human capital is one of the most important factors that can contribute towards economic growth of a country. Organizations have traditionally based their competitive strategies on other factors, such as product and process technology, protected market niches, access to financial resources and economies of scale. However, in an entrepreneurial environment such as the present one, characterized by market globalization, the intensification of competition and the high rate of technological change, tangible assets no longer provide sustainable competitive advantages (Perez and Pablos, 2003). The contribution of an organization in its human capital can greatly benefit the firm and the individuals working in that firm. It helps in the development of employees to be more productive which helps the firm to perform better (Awan and Sarfraz, 2013). Human capital presents the image of the background knowledge of individuals grouped in the organization's composite ability to disclose the optimum solution from its distinct employees (Bontis, 1999). Competence and skills are very important for the future success and security of an organization. It is commonly accepted that the education and training that a person attains during a span of his professional career increase his abilities and potential to work, resolve problems and carry out innovation. The current market faces increasingly rapid amount of changes in technology, systems and products. Usually most of the organizations make investments in training of their employees because they believe that it will lead to higher performance and it will yield results (Alliger, 1997 and Kozlowski, 2000).

A firm's human capital is an important source of sustained competitive advantage (Hitt *et al.*, 2001) and therefore investments in the human capital of the workforce may increase employee productivity and financial results (Pfeffer, 1998). Helping individuals to develop knowledge, skills and competence increases the human capital of the organization. People are better equipped to do their jobs and this is generally of value to the organization (Cunningham, 2002). The resource-based theory argues that firm performance is a function of how well managers build their organizations around resources that are valuable, rare, inimitable, and lack substitutes (Barney, 1991). Human capital as resources meet these criteria, hence the firm should care for and protect resources that possess these characteristics, because doing so can improve organizational performance (Crook, Ketchen, Combs, and Todd, 2008).

Insurance firms compete for a limited market characterized by low penetration. Kenyans' uptake of insurance cover, both at corporate and personal level, remains predominantly in the motor, fire, industrial and personal accident (mainly group medical cover) classes. This illustrates a poor attitude towards personal insurance cover in general. With the debt crisis in 2011, there was a notable drop in the overall premiums, a rise in claims and a decline in investment income. The gross direct premium income dropped from 25% in 2010 to 18% in 2011. This forced companies, especially those transacting in non-life business to change their strategy and not heavily depend on investment income to sustain profit, but instead to reduce operational and acquisition costs

(Insurance Regulatory Authority Annual Report, 2011). The performance of insurance firms is dependent on human capital attributes such as knowledge, experience and skills because these have a clear impact on organizational results and can build a long-term competitive advantage.

As at 31st December 2012, the banking sector consisted of the Central Bank of Kenya as the regulatory authority, 43 commercial banks and 1 mortgage finance company, 5 representative offices of foreign banks, 8 Deposit-Taking Microfinance Institutions (DTMs), 2 Credit Reference Bureaus (CRBs) and 112 Forex Bureaus. Out of the 44 banking institutions, 31 locally owned banks comprise 3 with public shareholding and 28 privately owned, while 13 are foreign owned. During the year 2012, banks increased their branch network by 111, which translated to a total of 1,272 branches. The increase is an indication of increased provision of banking services. The banking sector registered an increase in staff levels by 1580 from 30,056 in 2011 to 31,636, representing an increase of 5.3 percent. All the cadres of staff increased with the exception of supervisory level which reduced by 84 (Central Bank of Kenya Bank Supervision Annual Report, 2012).

It has been demonstrated empirically that the human capital of a firm becomes a strategic asset when that knowledge is valuable and unique, thus generating greater competitiveness and ultimately more profit (Subramaniam and Youndt, 2005). Firms promote their human capital and therefore create value through selection and training, thus increasing their

performance (Hitt *et al.*, 2001). Considerable empirical evidence (e.g. Black and Lynch, 1996; Delaney and Huselid, 1996; Youndt *et al.*, 1996) reveals the positive effects of human resource practices related to enhancing human capital for firms' outcomes. selection and training provides a firm with a skilled workforce capable of ongoing learning, and employees develop a greater knowledge to respond to intense competition, constant product innovation and more complex technologies (Appelbaum *et al.*, 2000; Batt, 2002; Snell and Dean, 1992). Generic human capital such as years of schooling is especially important because people who have received a better education have a higher potential to learn and contribute to the success of the company (Hatch and Dyer, 2004; Hitt *et al.*, 2001; Rauch *et al.*, 2005). As the level of employee human capital is fostered, people develop more efficient means of accomplishing task requirements, thereby increasing productivity. Black and Lynch (1996) showed that the average educational level in firms is positively related to business productivity.

One major challenge facing the financial services sector in Kenya is low human capital. A study done by PriceWaterHouseCoopers (2010) on Kenyan insurance firms found that there is a human capital challenge facing insurance firms, where many insurers are facing mounting skills shortages. High labour turnover has also been cited as one of the predictions of failure of insurance firms in Kenya (Kibandi, 2006). This could be due to the low human capital in the insurance industry as well as how human resources are managed. While banks have traditionally emphasized shrewd use of

financial assets, the increasingly competitive global marketplace is causing financial institutions to take a fresh look at the way they manage human capital. The banking industry is being buffeted by a storm of trends and challenges. Customers perceive banking products and services as commodities; shareholders demand healthy growth and fat margins; employee turnover is a persistent problem; and skilled talent is in short supply.

Jamal and Saif (2011) did a study on the relationship between Human Capital Management and Organizational Performance. Results of the study showed that the firms Human Capital Management have a significant positive impact on organizational performance. The study focused on how management of human capital can affect firm performance, while this study assessed the direct influence of human capital on firm performance. Awan and Sarfraz (2013) carried out a study to establish the relationship between human capital and firm performance and the mediating effect of employee satisfaction on the human capital-firm performance link. The study found a strong positive relationship between human capital and firm performance and further found that employee satisfaction mediated this relationship. The study considered the moderating role of employee satisfaction on the relationship between human capital and firm performance. The sample comprised only three firms. This study considered the direct effect of human capital on firm performance. Another study by Nishantha (2011) examined the effect of entrepreneur's human capital and social capital on the growth of Small Enterprises (SEs) in Sri Lanka. Specifically, the study sought to establish

the moderating effect of social capital on the relationship between human capital and firm growth. Social capital was found to moderate the relationship between human capital and firm growth. The study introduced social capital as a moderator and focused on small organizations only, yet organizational size as a characteristic may yield different results.

The above mentioned studies were done in developed economies and the contextual differences may yield different results, therefore findings and conclusions of these studies may not apply to firms operating in the Kenyan context. Some of the studies also utilized small samples, while the current study used a large sample which comprised all the firms in the insurance and banking industries in Kenya. This study therefore was aimed at filling up the identified gaps in previous studies and attempted to answer the research question, does human capital influence the performance of insurance firms and commercial banks in Kenya?

This study will shed light on the importance of human capital, hence organizations will devise strategies for sharpening the skills of their workforce and enhance competence and creativity which is a source of competitive advantage. The study will also be resourceful to the policy makers in insurance firms and commercial banks, because it will question the existing policies and their effectiveness in enhancing human capital. Where need be, a review of policies may be considered. This study will allow insurance firms and commercial banks to critically evaluate the practices that they have embraced in building human capital and shed light on

more practices that have been found to effectively enhance human capital.

2. Literature Review and Theoretical Foundation

This study is grounded on the human capital theory. Human Capital theory was proposed by Schultz (1961) and developed extensively by Becker (1964). Human capital theory suggests that education or training raises the productivity of workers by imparting useful knowledge and skills, hence raising workers' future income by increasing their lifetime earnings (Becker, 1994). It postulates that expenditure on training and education is costly, and should be considered an investment since it is undertaken with a view to increasing personal incomes. Human capital theorists argue that firms will invest significantly to develop unique and non-transferable (i.e. firm-specific) skills through extensive training initiatives (Hatch and Dyer, 2004; Lepak and Snell, 1999). The human capital approach is often used to explain occupational wage differentials. In his view, human capital is similar to "physical means of production", e.g., factories and machines: one can invest in human capital (via education, training, medical treatment) and one's outputs depend partly on the rate of return on the human capital one owns. Thus, human capital is a means of production, into which additional investment yields additional output. Human capital is substitutable, but not transferable like land, labor, or fixed capital.

Human Capital

There have been a number of efforts to define and investigate human capital. One stream of research defines human capital as the abilities individuals possess (Burt,

2000). Another stream of research incorporates education and experience into human capital. Human capital is formed by aptitudes, competences, experiences and skills of internal members of the organizations (Bontis *et al.*, 2002). Pil and Leana (2009) define Human capital as an individual's cumulative abilities, knowledge and skills developed through formal and informal education and experience. From an organizational perspective, human capital is the result of a firm's deliberate investment through the selective hiring of employees with high general skills (or formal education) plus a firm investment in training of more specific skills through in-house training activities ([Lepak and Snell, 1999](#)). Human capital is formed by aptitudes, competences, experiences and skills of internal members of the organizations ([Bontis, 1999](#); [Bontis et al., 2002](#)). Organizations can increase their human capital by attracting individuals with high skills from the external labor market and/or by internally developing the skills of their current members.

Human resources are crucial in creating human capital because organizations do not create knowledge otherwise organizations can increase their human capital by attracting individuals with high skills from the external labor market and/or by internally developing the skills of their current members. In the latter, a big role is played by employee retention. In terms of human capital, senior managers are crucial in attracting, selecting and retaining the right people in the organization as well as in devising and addressing training needs to develop the participation of employees and volunteers (Hudson, 1995).

Firm Performance

Firm performance is defined as “the economic outcomes resulting from the interplay among an organization’s attributes, actions and environment” (Combs et al., 2005, p. 261). The conceptual domain of firm performance can be specified only by relating this construct to the broader construct of organizational effectiveness. Organizational effectiveness is defined as “the degree to which organizations are attaining all the purposes they are supposed to” (Strasser, Eveland, Cummins, Deniston, & Romani, 1981, p. 323). Organizations obtain different effectiveness assessments based on diverse constituencies. Therefore, organizational effectiveness encompasses firm performance and other performance concepts (i.e., corporate environmental or social performance), which are relevant for practice and research.

Venkatraman and Ramanujam’s (1986) performance-measurement framework focuses on multiple indicators of organizational performance. These indicators are financial performance, operational performance and overall effectiveness. Financial performance includes overall profitability (indicated by ratios such as return on investment, return on sales, return on assets, and return on equity), profit margin, earnings per share, stock price and sales growth. Operational performance refers to non-financial dimensions, and focuses on operational success factors that might lead to financial performance. Operational performance includes both product-market outcomes (including market share, efficiency, new product introduction and innovation, and

product or service quality) and internal process outcomes (productivity, employee retention and satisfaction, and cycle time). Measurement of overall effectiveness reflects a wider conceptualization of performance and includes reputation, survival, perceived overall performance, achievement of goals, and perceived overall performance relative to competitors (Venkatraman and Ramanujam, 1986).

Reviewing past studies reveals a multidimensional conceptualization of organizational performance construct. A review of the operationalization of organizational performance highlights the limited effectiveness of commonly accepted measurement practices in tapping this multidimensionality. Researchers should therefore establish which measures are appropriate to their research context.

Human Capital and Firm Performance

Intangible resources, like human capital are more likely to produce a competitive advantage because they are rare and socially complex, and therefore difficult to imitate (Hatch and Dyer, 2004; Hitt *et al.*, 2001). The human capital pool can improve firm performance through its contribution to the firm's flexibility. In this sense, investment in human capital improves employability and therefore labor flexibility (Groot and Van Den Brink, 2000). Workers with higher levels of education and training are more employable, i.e. they can be employed in more jobs and perform multiple tasks within the firm. According to Lepak *et al.* (2003) one advantage of this “resource flexibility” is that it enhances the ability of the organization to deploy its workforce

effectively, and thus, improve organizational performance.

Resource-based view of the firm indicates that resources are valuable when they allow improving effectiveness, capitalizing on opportunities and neutralizing threats. In the context of strategic management, value creation focuses on increasing the ratio of customer profits in comparison with the associated costs. In this sense, firm's human capital can add value if it contributes to lower costs, provide increased service or product features to customers (Perez and Pablos, 2003). The authors further note that perhaps the organizational resources most difficult to control of all are people. Therefore, executives have traditionally based their competitive strategies on other factors, such as product and process technology, protected market niches, access to financial resources and economies of scale. However, in an entrepreneurial environment such as the present one, characterized by market globalization, the intensification of competition and the high rate of technological change, tangible assets no longer provide sustainable competitive advantages.

As firms are focusing on their intangible assets, intellectual capital can be viewed as the future basis of sustained competitive advantage. This is particularly true in industries based on knowledge, such as information and software services. Competitive advantage depends more and more on "people-embodied know-how" (Prahalad, 1983). Accordingly, it is human capital, rather than physical or financial capital, that distinguishes the leaders in the market. For these reasons, and given the fact that employee knowledge, skills and

abilities constitute one of the most significant and renewable resources which a company can take advantage of, the strategic management of this capital now has greater importance than ever (Ulrich, 1991).

Knowledge is the most important resource that organizations can rely on to generate innovation (Nonaka and Takeuchi, 1995). Knowledge can add value to organizations through intangible assets such as customer relationships, goodwill, brand recognition and competences of employees. Those intangible assets are defined as intellectual capital. Edvisson and Sullivan (1996) have defined it as knowledge that can be converted into value. There are many evidences that Intellectual Capital has a positive impact not only on corporate value but also on its present and future performance (Youndt and Snell, 2004). The rise of the knowledge-based economy is attributed to the increasing importance of intellectual capital as an intangible and important resource for companies' sustainable competitive advantage (Roos and Roos, 1997).

There is no doubt that part of an organization's knowledge resides in the people who form it. The employee's knowledge value depends on their potential to contribute to the achievement of an organizational competitive advantage. Recent research suggests that human capital attributes (including training, experience and skills) and in particular the executives' human capital, have a clear impact on organizational results (Huselid, 1995; Pennings *et al.*, 1998; Wright *et al.*, 1995). Although the use of this knowledge is an important factor in the actual competitive

environment, it is not enough to use the actual employees' knowledge basis. Thus, Wright *et al.* (1995) consider that “despite the firm's resources and capacities have added some value in the past, changes in customers' demands, in the industry's structure or in technology may turn them into less valuable in the future” (p. 51). Therefore it is important to manage employees, their knowledge and competences in such a way that the organization can build a long-term competitive advantage.

In order to be a source of competitive advantage, human resources must create organizational value. Resources are valuable if they allow the organization to develop strategies that improve efficiency and efficacy (Barney, 1991). When human capital is highly valuable and unique it provides strategic benefits that exceed the bureaucratic costs associated with their development and deployment. Organizations have incentives to internally develop and invest in human capital to maximize its value creating potential and differentiating characteristics. To do this, organizations may implement commitment-based human resource systems that focus on internal development of skills and long-term relationships (Rousseau, 1995; Tsui *et al.*, 1995). Investment in human capital improves employability and therefore labor flexibility (Groot and Van Den Brink, 2000). Workers with higher levels of education and training are more employable, i.e. they can be employed in more jobs and perform multiple tasks within the firm. According to Lepak *et al.* (2003) one advantage of this “resource flexibility” is that it enhances the ability of the organization to deploy its workforce

effectively, and thus, improve organizational performance.

Barney and Wright (1998) concluded that only human capital with valuable and unique knowledge is a strategic asset. Hence, as recommended by Boxall (1996), companies should select and retain employees of this type, as they generate human capital advantage. However, knowledge, skills and expertise tend to suffer a certain degree of obsolescence. Companies can act to prevent this by using certain types of HRM practices, as also stated by Boxall (1996) and Snell *et al.* (1996). If the company adopts appropriate procedures of personnel management, human capital can be orientated to the achievement of sustainable competitive advantages through the preservation and enlargement of the value and the specificity of the knowledge possessed by employees. This will promote the updating, improvement and transfer of this knowledge in the organization. More recently, research into intellectual capital and its components confirmed this reasoning; it has been demonstrated empirically that the human capital of an organization becomes a strategic asset of the company when that knowledge is valuable and unique, thus generating greater competitiveness and ultimately more profit (Subramaniam and Youndt, 2005).

On the other hand, Collis and Montgomery (1995) state that the importance of human capital depends on the degree to which it contributes to the creation of a competitive differentiation. From an economic view, transaction-costs theory indicates that firms gain a competitive advantage when they own firm-specific resources that

cannot be copied by rivals (Williamson, 1975). Thus, as the uniqueness nature of human capital increases, firms have incentives to invest resources into its management with the aim of reducing risks and capitalize on its productive potential.

Idiosyncratic human capital (low value, high uniqueness) is a potential source of differentiation because it is a firm-specific resource. Ancillary human capital (low value, low uniqueness) is simply generated as a result of firm's activity. As ancillary human capital is formed basically by unskilled or semi-skilled employees that offer no source of competitive advantage, firms tend to automate this knowledge, that is to say, they substitute technology for employees (Snell *et al.*, 1995). Core human capital (high value, high uniqueness) provides strategic benefits that exceed the bureaucratic costs associated with their development and deployment. Organizations have incentives to internally develop and invest in this human capital to maximize its value creating potential and differentiating characteristics. To do this,

organizations may implement commitment-based human resource systems that focus on internal development of skills and long-term relationships (Tsui *et al.*, 1995).

Compulsory human capital (high value, low uniqueness) is not specific to any particular organization and employees are free, within certain limits, to sell their talents wherever they can achieve the greatest return (Rousseau, 1995). Due to this transferability, human capital theory suggests that organizations would not be likely to invest in this kind of human capital (Becker, 1964). Instead, organizations may rely on selective staffing processes to identify potential employees with the appropriate skills to generate immediate productivity. The hiring firm simply pays the market rate (or above) for these employees and takes advantage of their valuable talents immediately. These practices characterize a market-based human resource system (Lepak and Snell, 1999).



Figure 1: Conceptual Model

Human capital attributes such as knowledge, skills and experience have an impact on organizational results. It has been demonstrated empirically that the

human capital of an organization becomes its strategic asset when that knowledge is valuable and unique, thus generating greater competitiveness and ultimately more profit (Subramaniam and Youndt, 2005). Human capital generates value

through investments in increasing individuals' knowledge, skills, talents and know-how (Roos *et al.*, 1997). Investments in the human capital of the workforce may increase employee productivity and financial results (Pfeffer, 1998). As the level of employee human capital is fostered, people develop more efficient means of accomplishing task requirements, thereby increasing productivity.

This leads to the hypothesis that:

H1: Human capital has a significant influence on firm performance

3. Research Methodology

The research design that was used is descriptive cross-sectional design. The target population of this study was all the insurance firms and commercial banks in Kenya, where a census survey was carried out on all the 88 firms which comprised all licensed commercial banks and insurance firms in Kenya. The study made use of both primary and secondary data. The secondary data was obtained through a review of financial statements where the Return on Assets (ROA) and Return on Equity (ROE) were obtained for a three year period as financial indicators of firm performance, after which an average score was computed. The organization was the unit of analysis and the target respondents were the Human Resource Managers and Marketing Managers of the commercial banks and insurance firms. The Human Resource Manager responded to the sections on the organization data and Human Capital, while the Marketing Manager responded to the section on the non-financial indicators of firm performance. Simple linear regression analysis was used to establish the nature

and magnitude of the relationship between human capital and firm performance. Descriptive statistics such as frequencies and percentages were computed for organizational data and multiple choice questions in order to describe the main characteristics of the variables of interest in the study. Mean scores were computed for likert type of questions. Data was presented in form of tables.

4. Data Analysis And Results

This study sought to establish the influence of human capital on firm performance. The tests were carried out using simple regression analysis at 5% significance level ($\alpha = 0.05$). To test the hypotheses, it was necessary to compute composite scores for variables that had several measures. In this regard, overall non-financial measures of firm performance (quality of service, customer satisfaction and efficiency in service delivery) were collapsed into one composite index. Similarly, composite scores were calculated to represent the responses to the various attributes that defined human capital, which were used as input to the evaluation. The outline and the results from the evaluation were as presented below:

H1a: Human Capital has a significant influence on non-financial firm performance

This hypothesis was tested by regressing human capital on non-financial firm performance guided by the equation $Y = \beta_0 + \beta_1 X$ where X represented human capital and Y denoted non-financial firm performance. The results of the regression are presented in table 1 below.

Table 1: Regression results for the influence of Human Capital on Non-financial Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.391	.153	.129	.101316

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.067	1	.067	6.494	.015
	Residual	.370	36	.010		
	Total	.436	37			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.452	.147		3.065	.004
	Human capital	.473	.186	.391	2.548	.015

Predictors: (Constant), human capital computed as a composite
Dependent Variable: non financial performance computed as a composite

The results presented in table 1 show that the influence of human capital on non-financial firm performance was significant ($F = 6.494, p < 0.05$). From the table, 15% of the variation in non-financial firm performance was explained by variation in human capital ($R \text{ square} = .153, p < 0.05$). β was also statistically significant ($\beta = 0.473, t = 2.548, p < 0.05$). Overall, regression results presented in table 4.1 indicate that human capital has a positive effect on non-financial firm performance.

The hypothesis that human capital influences firm performance was therefore confirmed for non-financial performance indicators. As human capital increases, non-financial firm performance increases too.

The influence of human capital on financial performance was measured using return on assets and return on equity. The indicators were calculated for a three year period based on information from the financial statements filed with the Central Bank of Kenya and the Insurance Regulatory Authority. An average of the three year period was taken and used as the indicator for financial performance. Regression model used is similar to the one used for non-financial indicators as the dependent variable. The regression results for the influence of human capital on return on assets and the influence of human capital on return on equity are presented in table 2 and 3 respectively.

H1b: Human Capital has a significant influence on Return on Assets

The influence of human capital on return on assets was tested and the results were as presented in table 2 below.

Table 2: Regression results for the effect of Human Capital on Return on Assets

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.070	.005	-.019	.0547020		
ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.001	1	.001	.204	.654
	Residual	.126	42	.003		
	Total	.126	43			
Coefficients(a)						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.005	.070		-.065	.948
	Human capital	.040	.089	.070	.452	.654
Predictors: (Constant), human capital						
Dependent Variable: return on assets						

The results presented in table 2 indicate that the effect of human capital on Return on Assets was not significant (R Square = 0.005, F= .204, p >0.05). The test results indicated that less than 1 % of variation in Return on Assets could be explained by variation in human capital, which was not

significant (p > 0.05). The β was not significant ($\beta = 0.040$, $t = 0.452$, $p > 0.05$). The evidence therefore indicated that the model could not be used in explaining the influence of human capital on return on assets of the firm.

H1c: Human Capital has a significant influence on Return on Equity

The influence of human capital on return on equity was also tested and the results were as presented in table 3 below.

Table 3: Human Capital and Return on Equity

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.087	.008	-.016	.2039073		
ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.013	1	.013	.318	.576
	Residual	1.746	42	.042		

Total		1.760	43			
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.285	.260		1.097	.279
	Human capital	-.188	.333	-.087	-.564	.576

Predictors: (Constant), human capital computed as a composite
Dependent Variable: return on equity

The results presented in table 3 show that the effect of human capital on Return on Equity was not significant (R Square = 0.008, F= .318, $p > 0.05$). The test results indicated that less than 1 % of the variation in Return on Equity could be explained by variation in human capital, which was not significant ($p > 0.05$). The β was also not significant ($\beta = -.188$, $t = -0.564$, $p > 0.05$). The evidence therefore indicated that the model could not be used in explaining the effect of human capital on Return on Equity.

Discussion and Conclusion

The objective of the study was to establish the influence of human capital on the performance of insurance companies and commercial banks in Kenya. This was achieved by asking the respondent organizations to indicate the extent of adoption of human capital practices in their organizations. Majority of employees in the financial services sector are Bachelors degree holders. These are the academic qualifications that have been held by majority of employees within the last three years. It can be deduced that the level of human capital in this sector considering the academic qualifications is above average. In terms of employee work experience in the sector, most of the employees had less than 10 years of work experience. This clearly indicates that the

financial services sector absorbs a younger, vibrant and energetic workforce that would be capable of responding swiftly to the changes that the external environment presents and the dynamic business environment considering the volatility of this industry. Technological advancement in this sector has been very dynamic and organizations in an attempt to remain competitive have strived at embracing technology as it unfolds. Younger workers are more technology savvy, hence this may explain the reason the sector prefers to attract a younger workforce. A younger work force may also cope easily with the work pressure and emerging trends in this sector.

Considering work experience as a human capital measure, human capital in this sector, ranges from low to average. Majority of the respondent organizations conducted less than five job-related training workshops for each employee in a year. The human capital in this sector, considering the average job-related training workshops attended by employees in a year is low. Short courses attended by each employee in a year did not exceed five for most of these organizations. The human capital in this sector, considering the average short courses attended by employees in a year is low. Overall the

adoption of practices regarding human capital variable had a grand mean of 3.85. From an organizational perspective, human capital is the result of a firm's deliberate investment through the selective hiring of employees with high general skills (or formal education) plus a firm investment in training of more specific skills through training activities (Lepak and Snell, 1999, 2002; Skaggs and Youndt, 2004).

Human capital generates value through investments in increasing individuals' knowledge, skills, talents and know-how (Roos *et al.*, 1997). One type of investment is education. Higher levels of education reflect greater investments in human capital (Bontis, 1998, 1999). An individual who is highly educated is more knowledgeable and performs better than others, and gets more opportunities to move upward (Hitt *et al.*, 2001; Wayne *et al.*, 1999). Also, rank and tenure are forms of investment that can enhance an individual's human capital. The contention is that individuals with higher rank or longer tenure may better understand the whole company, learn from their work, develop expertise in their positions, and obtain valuable firm-specific experiences, which all increase developmental opportunities (Judge and Bretz, 1994).

The study hypothesized that human capital has an influence on firm performance. The influence of human capital on financial measures of firm performance was not statistically significant, while the influence of human capital on non-financial measures of firm performance was statistically significant, therefore it can be inferred that as human capital increases, non-financial firm performance increases

too. These results are consistent with existing literature which points out a positive effect of human capital on firm performance. Recent research suggests that human capital attributes (including training, experience and skills) and in particular the executives' human capital have a clear impact on organizational results (Barney, 1991; Finkelstein and Hambrick, 1996; Huselid, 1995; Pennings *et al.*, 1998; Pfeffer, 1998; Wright *et al.*, 1995). A firm's human capital is an important source of sustained competitive advantage (Hitt *et al.*, 2001) and therefore investments in the human capital of the workforce may increase employee productivity and financial results (Black and Lynch, 1996; Pfeffer, 1998; Snell and Dean, 1992). The rise of the knowledge-based economy is attributed to the increasing importance of intellectual capital as an intangible and important resource for companies' sustainable competitive advantages (Roos and Roos, 1997). The results of a study by Backman (2013) indicate that firms with a higher level of human capital, measured by education, experience, and cognitive skills, perform better in terms of productivity. These firms therefore experience a competitive advantage compared to other firms. Thus, the importance of having skilled individuals in-house is emphasized.

Recommendations and Policy

Implications

The research results showed that human capital significantly influences firm performance considering the non-financial indicators. The implication of this to the practice is that building a firm's human capital is an effective strategy for improving firm performance. Organizations should strive at increasing their human capital because high human

capital can generate superior organizational outcomes. It has been demonstrated empirically that the human capital of a firm becomes a strategic asset when that knowledge is valuable and unique, thus generating greater competitiveness and ultimately more profit (Subramaniam and Youndt, 2005). The human resource professionals can help their respective organizations in achieving this by embracing rigorous selection procedures and matching the right people with the right jobs. Academic qualifications and work experience should be considered during selection. Organizations could also reward length of service as a retention strategy aimed at building work experience. Intensive training programs aimed at imparting job-related skills should be designed after proper needs assessment has been done. Such training programs should also be offered regularly. Organizing as many relevant short courses as possible with an aim of imparting job-specific skills would enhance the human capital base.

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