ABSTRACT

The purpose of the study was to establish the effect of human capital, social capital, employee empowerment and quality of decisions on the performance of commercial banks and insurance firms in Kenya. Specifically, the study sought to establish the influence of human capital on the performance of insurance firms and commercial banks in Kenya; The relationship between human capital and quality of decisions; The influence of quality of decisions on firm performance; Whether the influence of human capital on firm performance is moderated by social capital and employee empowerment; If the influence of human capital on firm performance is mediated by quality of decisions and the joint effect of human capital, social capital, employee empowerment and quality of decisions on firm performance. A census survey was carried out on all the 43 licensed commercial banks and 45 insurance firms in Kenya. Out of the 88 firms that were targeted, 54 responded, constituting a response rate of 61%. Hypotheses were tested using regression analysis and Pearson's Product Moment Correlation 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. There was a positive and moderate relationship between human capital and quality of decisions. The influence of quality of decisions on non-financial measures of firm performance was statistically significant. Social capital and employee empowerment do not moderate the influence of human capital on firm performance, but they both have a mediating effect. The findings also revealed that the influence of human capital on firm performance is mediated by quality of decisions. The results confirmed that the joint effect of human capital, social capital, employee empowerment and quality of decisions on non-financial firm performance was greater than the individual effects of human capital and quality of decisions on non-financial firm performance. 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. Nishantha (2011) found that social capital moderates the relationship between human capital and firm growth. This study has contributed to existing knowledge by empirically confirming that social capital and employee empowerment are not moderators but mediators of the relationship between human capital and firm performance. The study also brings out an increased understanding that the combinative effect of the study variables is greater than the individual effects. Organizations can enhance their performance by building their human capital base through rigorous selection procedures and matching the right people with the right jobs. Work experience should be considered alongside academic qualifications during selection. Firms should strengthen their social networks and linkages so as to maximize on resources that may be obtained through such networks. Organizations should increase the level of employee empowerment because contributions by engaged employees are believed to have a significant impact on business productivity, revenue and the organization's overall effectiveness. Employees with the relevant knowledge, skills and competencies should be encouraged to obtain and share information through the established social networks to achieve greater synergy in increasing competitiveness.