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INFLUENCE OF ORGANIZATIONAL CAPABILITIES ON THE FINANCIAL PERFORMANCE OF INSURANCE IN KENYA

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Abstract

Purpose: The purpose of this study was to establish the influence of organizational capabilities on the financial performance of insurance in Kenya.

Methodology*:* The paper employed desktop methodology, which involved review of existing literature relating to the study topic. The design involves a review of existing studies relating to the research topic.

Results*:* Based on past literature the study concluded that government ownership had a negative relationship with asset quality, earnings quality and management efficiency indicating laxity in prudent credit management practices and also inefficiency of operations and poor returns. Institutional ownership on the other hand showed a positive relationship with most of the parameters with an exception of some commercial banks. This means that governance capability enhances organizational performance. Further, lack of knowledge of financial management leads organizations to serious problems regarding financial performances. The study found out that financial innovations influence organizational financial performance a very great extent. The results revealed that the relationship between innovation capabilities; innovation efforts and firm performance are significant and strong. Human resource capability is valuable, rare, irreplaceable, and difficult to imitate; therefore, it is crucial for creating sustainable competitive advantages. Human resource capability can be appropriately used to improve the performance of an organization. The study findings further showed that government does not have a role in shaping the entrepreneurial spirit, because the entrepreneurial spirit has been formed in their environment and such acts are hereditary. In addition, the study concluded that market share has a significant effect on Annual Profit, Return on Assets and Net Profit Margin. It means that greater the market share, greater the profitability of the firm.

Unique contribution to theory, practice and policy*:* Based on the findings, the study recommended that insurance firms should capitalize on their capabilities and this will enhance their financial performance. The study further recommended the need for insurance firms to adopt effective financial management practices and this will lead to improved financial performance. As such, insurance firms should adopt the use of modern technology and this will improve their performance. Insurance firms should develop a culture of adhering to the guiding rules and regulations as stipulated in the regulations Act.

Keywords: *organizational capabilities, financial performance, insurance*

1.0 INTRODUCTION

1.1 Background of the Study

Financial performance consists of many different methods to assess how well an organization is using its assets to generate income (Richard, 2009). Common examples of financial performance comprise of operating income, earnings before interest and taxes, and net asset value. It is of great importance to note that no single measure of financial performance should be considered on its Financial performance consists of many different methods to assess how well an organization is using its assets to generate income (Richard, 2009). Common examples of financial performance comprise own. Rather, a thorough evaluation of a company's performance should take into account many different measures of its performance. Organizations must evaluate and monitor their profitability levels periodically so as to measure their financial performance through use of the profitability measures computed from the measures explained above. The two most popular measures of profitability are Return on Equity (ROE) and Return on Assets (ROA). ROE measures accounting earnings for a period per shilling of shareholders' equity while ROA measures return of each shilling invested in assets.

Different organizations measure financial performance differently; some organizations measure their financial performance by comparing themselves with another organization in the same industry and of same size among other characteristics. Other organizations undertake financial ratio analysis while other uses their budgets to measure their financial performance. It is also possible for an organization to use a mix of methodologies in measuring its financial performance (Pandey, 2010). According to Foestor and Huen (2004) it is the size of the institution, its management of the assets and the efficiency of the organizations operations that affect the financial performance of the organization.

It is widely acknowledged that organizational capabilities are central to the growth of output and productivity in many economies (Kiraka, Kobia & Katwalo, 2013). Despite the fact that insurance has been practiced for over a thousand years' world over, it is true that insurance uptake is still very low, not only in Kenya but the world over (Osero, 2013). In Kenya however, the problem is severe given that 96% of the adult population do not have any form of insurance (Anja, Doubell, Herman, Sandisiwe & Chelwa, 2015) and insurance companies have not come up with strategies to fully tap this market (Ohnemus, 2015). It is worth noting that the contribution of insurance industry to the economy is still minimal and the study aims to establish the role of organizational capabilities on insurance performance in Kenya.

Park, Borde and Choi (2002) analyzed the determinants of insurance pervasiveness in the United States. The research noted that despite the effect of macroeconomic variables on insurance pervasiveness having been examined across countries, the impact of sociocultural variables on the degree of insurance pervasiveness has not been extensively researched. The study by Park, Borde and Choi (2002) therefore sought to determine the effect of cultural and sociopolitical factors on the level of insurance pervasiveness. The study found that the masculine–feminine dimension of national culture, aggregate income, sociopolitical stability and government regulations have significant effects on insurance firms' financial performance.

The relationship between market share and profitability continues to be an important research issue in strategic management. Rumelt and Wensley (1980) argue that the observed association between market share and profitability is an empirical regularity that requires a theoretical explanation. There is a widely held belief that market share and profitability are strongly related (Buzzell and Gale 1987; Simon 2010).

Research conducted in the 70s by Gale (1972), Shepherd (1972) and Buzzell, Gale and Sultan (1975) supported the hypothesis of a positive relationship between market share and profitability. Buzzell (2004) notes that majority of studies on the topic find a linear positive relationship between market share and financial performance.

According to Coulter (2012), capabilities are the building blocks for core competencies and are embedded in the firm and require both time and significant resources to change. Further, Amit and Schoemaker (2013) define organizational capabilities as the firms' capacity to deploy their assets, tangible or intangible, to perform a task or activity to improve performance as well as the capacity of the firms to offer excellent customer service or develop new products and innovate. This concept is also in line with that of Teece (2009) who suggests that dynamic capabilities are the firms' ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environment.

On the other hand, penetration refers to the ability insurance companies to create better opportunities for customers to purchase their products and services. For many organizations, the major obstacle for growth is getting their products and services to their customers. Ansoff (1990) defines penetration as the activity or fact of increasing the market share of an existing product or promoting a new product through strategies such as bundling, advertising, lower prices or volume discounts.

The insurance industry in Kenya is governed by the Insurance Act and regulated by the Insurance Regulatory Authority. The Insurance Regulatory Authority (IRA) was created by the Insurance (Amendment) Act of 2006 and came into operation on 1st May 2007 (IRA, 2010). The Authority was established with the mandate of regulating, supervising and developing the insurance industry. In his study Njihia (2013) observed that external factors such as government regulations contribute to the growth of insurance companies. The study suggested that government regulations and other external factors should be aligned in a way that provides room for organizations to explore means of enhancing their market share.

Insurance companies provide unique financial services necessary for the growth and development of every economy. Such specialized financial services range from the underwriting of risks inherent in economic entities and the mobilization of large amount of funds through premiums for long-term investments (Pearson & Robinson, 2007). Insurance companies' ability to continue to cover risk in the economy hinges on their capacity to create profit or value for their shareholders. Indeed, a well-developed and evolved insurance industry is a boon for economic development as it provides long-term funds for infrastructure development of every economy (Charumathi, 2012). Insurance sector in Kenya comprises of several players that include insurance companies(underwriters), agents, insurance brokers, investigators, medical insurance providers, insurance surveyors, risk managers, loss adjustors and reinsurances companies (AKI, 2016).

1.2 Problem Statement

The penetration of insurance in Kenya remains low compared to other parts of the world (AKI, 2016). This can be attributed to various factors including poor governance, financial instability, inadequate human capital and lack of technological advancement. According to Financial Sector Deepening Kenya (2015) report, only 6.8% of Kenyans have purchased an insurance policy directly or indirectly; an overwhelming 93.2% never having embraced insurance either in life or property.

Despite insurance penetration being a global problem with developed markets like the United Kingdom at about 11% and the United States of America at about 8.6% penetration rates, it is a severe problem in Kenya given that penetration is at a low of 3.4% which is below the average Africa continent penetration of 3.65% (Swiss Re, 2013). Furthermore, insurance penetration in Kenya is too low compared to other African countries such as South Africa with a penetration rate of 14%, Namibia 8% and Mauritius 5.94% (Manyara, 2014).

According to Minambo, (2014), Kenya with a population of over 40 million people, all the 43 licensed banks share 20 million banks accounts among themselves while 51 licensed insurance companies only share one million life policies among themselves. Therefore, there is a need for a radical change in the insurance industry for it to gain better market share and penetration and grow to the levels of the banking industry. Low penetration results to bigger exposure on Small and Medium size enterprises in terms of both man-made and natural calamities threatening their survival. For example, the Ngara fire, Gikomba fire and Mukuru Kwa Njenga fire resulted in the loss of billions of shillings and created unemployment and increased crime rate resulting to a declined economic growth (GoK, 2014).

Review of previous studies on organizational capabilities and performance revealed several research gaps. Kanake (2011) evaluated strategic capabilities as a strategic tool in Commercial Bank of Africa. The study reveals a conceptual gap since it did not address the objectives of the proposed study. Waweru and Ngugi (2014) explored the influence of financial management practices on the performance of Micro and Small Enterprises in Kenya. The study reveals the presence of contextual gap since it focused on a different industry. Further, Hsu (2010) presents a methodological gap since it adopted panel approach whereas the proposed study is cross-sectional.

While studies on organizational capabilities and financial performance exist, very few if any have examined the mediating effect of market share on the relationship between organizational capabilities and financial performance of Insurance in Kenya. As such, there was need to fill the emerging research gaps by establishing the influence of organizational governance, financial, human resource and technology capabilities on the financial performance of insurance in Kenya with market share as the mediating variable.

1.3 Purpose of the Study

The purpose of this study was to establish the influence of organizational capabilities on the financial performance of insurance in Kenya

1.4 Objectives of the Study

i. To determine the influence of organizational governance capability on the financial performance of Insurance in Kenya
ii. To examine the influence of an organizations financial capability on the financial performance of Insurance in Kenya
iii. To assess the influence of an organizations human resource capability on the financial performance of Insurance in Kenya
iv. To evaluate the effect of an organizations technology capability on financial performance of Insurance in Kenya
v. To examine the moderating effect of government regulations and firm size on the relationship between organizational capabilities and financial performance of Insurance in Kenya
vi. To examine the mediating effect of market share on the relationship between organizational capabilities and financial performance of insurance in Kenya.

1.5 Hypotheses of the study

H_{01}: There is no significant influence of an organization's governance capability on the financial performance of Insurance in Kenya

H_{02}: There is no significant influence of an organization's financial capability on the financial performance of Insurance in Kenya

H_{03}: There is no significant influence of an organization's human resource capability on the financial performance of Insurance in Kenya

H_{04}: There is no significant influence of an organization's technology capability on the financial performance of Insurance in Kenya

H_{05}: Government regulations and firm size have no significant moderating effect on the relationship between organizational capabilities and financial performance of Insurance in Kenya

H_{06}: Market share has no significant mediating effect on the relationship between organizational capabilities and financial performance of Insurance in Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Capability Based Theory

The capability theory was proposed by Grant (1991) who asserted that capabilities are primary foundation of competitive edge whereas resources available are source of capabilities. Amit and Shoemaker (1993) took related stand as well as recommended that resources do not put in to continuous competitiveness to an organization, except own capacities can perform. Haas and Hansen (2005); Long and Vickers-Koch (1995), endorsed the significance of capabilities and proposed that an organization can achieve a robust competitiveness over rivals from own capacity in the systematic application of own capabilities in executing essential actions in the organization.

Amit and Shoemaker (1993) clearly elaborated capabilities in distinction to resources, as 'an organization's ability to set out assets, typically in amalgamation by employing the available processes within the organization, and cause a profitable outcome. Teece et al. (1997) described vibrant capabilities in an organization as, a capacity to incorporate, assemble, and reconfigure competencies both internally and externally so as to deal with speedily evolving environments. A firm's capacity to carry out continuous and a fruitful assignment which relates more over to the firm's competence in adding importance to its operations by implementing the change of its production.

Sirmon et al. (2003) emphasized the significance of learning in the organization. They proposed that organizational learning and organizational capabilities completely and openly are a part and parcel of entire strategy in an organization. It was elaborated by Zack (1999) that learning and creating advance new knowledge is crucial for obtaining competitive advantage. Lee et al. (2001) argued the effect of capabilities within the firm and external networks on firm performance.

The theory is relevant to the proposed study in determining the totality of resources that drive the performance of insurance industry. According to Long and Vickers-Koch (1995), organizations can achieve a robust competitiveness over rivals by capitalizing on its capabilities. For insurance companies to achieve gain wider market presence, they should be able to utilize their capabilities.

These capabilities may include; good governance, human resources, financial and technological. As such, insurance firms can only achieve substantial growth by capitalizing on their capabilities.

The theory is therefore important in explaining the importance organizational capabilities and how they impact on the market share of the insurance firms in Kenya.

2.1.2 Agency Theory

Agency theory was exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). The theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the agents to the shareholder Clarke (2004). Daily et al. (2003) argued that two factors can influence the prominence of agency theory. First, agency theory is a simple theory that reduces the corporation to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested.

According to the theory, shareholders expect the agents to act and make decisions in the principal‘s interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000). Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross (1973) and the first detailed description of agency theory was presented by Jensen and Meckling (1976). Indeed, the notion of problems arising from the separation of ownership and control in agency theory has been confirmed by Schoorman and Donaldson (1997). In agency theory, the agent may be succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent‘s pursuits.

The agency theory is relevant to this study since it can be used to explore the relationship between ownership and management structure. Insurance companies are likely to gain more penetration into the market and consequently perform better if there is good governance or simply good working relationship between various parties. Therefore, the agency theory is significant in explaining the role of governance in enhancing financial performance of firms. As such, the theory advances the aspect of governance capability in the proposed study.

2.1.3 Resource-Based View Theory

The resource-based view (RBV) as explained by Wernerfelt (1984), states that it is possible to achieve competitiveness by ensuring superior services are delivered to customers. The main emphasis of the extant literature is the strategic understanding of the manner in which resources are used to achieve a competitive advantage in an organization (Borg & Gall, 2009).

According to the perspectives of international business theorists, the success and failure of organizations in different environments can be achieved by understanding the competitiveness in their environments of operations and their alliance formation strategies in the emerging markets.

Local insight provided by the local alliance constitutes a significant factor in conceptualizing value according to the local demands (Gupta et al., 2011). Resource-based theory is based on the view that resources constitute inputs into production activities of an organization and can be categorized into physical, human, capital, and organizational resources.

A capability is a state where a set of resources have the ability to perform a particular task or function (Currie, 2009). Each organization is composed of a number of unique resources and capabilities that are important in achieving a particular return. In the 21st century competitive environment, an organization is composed of a number of improving capabilities under dynamic management for the purpose of achieving above average outcomes. Consequently, different organizations across time are motivated by particular resources and capabilities instead of structures within industries (Currie, 2009).

The theory explains the role of organization resources such as human resource and financial resource in influencing the performance of organizations. The significance of the resource-based view theory in this study is that it links organization capabilities (human and financial) to organization performance. With the appropriate human and financial capabilities, insurance firms are likely to perform better. Therefore, the resource based view theory advances both human resource and financial capability aspects in the proposed study.

2.1.4 Blue Ocean Theory

The Blue Ocean Theory developed by Kim and Mauborgne (2005) argues that companies can succeed not by battling competitors, but rather by creating ″blue oceans″ of uncontested market space. The metaphor of ‘Blue Oceans’ describes the market universe and denotes all the industries not in existence today, the unknown market space, untainted by competition, where demand is created rather than fought over (Kim & Mauborgne, 2005). In blue oceans, competition is not relevant and there is ample opportunity for growth that is both rapid and profitable.

The key concept of Blue Ocean theory is Value Innovation - the simultaneous pursuit of differentiation and low cost, creating value for the buyer, the company, and its employees, thus opening up new and uncontested market space (Lilly & Juma, 2014). The aim of value innovation is not to compete, but to make the competition irrelevant by changing the playing field of strategy. Value innovation challenges Porter (1985) idea that successful businesses are either low-cost providers or niche-players. Instead, blue ocean strategy proposes finding value that crosses conventional market segmentation and offering value and lower cost.

Blue ocean theory therefore derives its importance in emphasis on disregarding traditional rules and using competition as a benchmark (Kim & Mauborgne, 2005). It encourages organizations to tap into their creativity through innovation to come up with products and services that challenge the fundamental principle of conventional strategy, create new and uncontested market space and consequently improve their performance.

The theory is relevant to the proposed study since it explains the concept of technology capability. To achieve value innovation, insurance firms must embrace the use of modern technology. As such, they must ensure that they are technologically capable in terms of skills and equipment. If insurance firms are technologically capable, then they will be able to penetrate into the untapped markets and therefore, increase their customer base and eventually perform better. Thus, the blue ocean theory advances the organizations technology capability variable in this study.

2.1.4 Stakeholders Theory

Stakeholders’ theory supports the concept of organizational performance (Hubbard, 2009). According to Hubbard (2009), stakeholder theory assesses organizational performance against the expectations of a variety of stakeholders groups that have particular interests in the effects of the organization’s activities.

Stakeholders' theory is the basis of the Balanced Scorecard (BSC) performance measurement system by Kaplan and Norton (1992) and its successor Sustainable Balanced Scorecard (Hubbard, 2009). Kaplan and Norton (1992) argued that most strategic plans were unbalanced because one stakeholder group namely the stockholders were overemphasized. The BSC incorporates financial, customer/market, short-term and long-term learning and development factors.

Financial measures include traditional indicators such as cash flow, sales, and return on investments. Business processes include support activities such as order processing (Borror, 2009). Customer measures may include trends in customer satisfaction or average wait times on telephone hot lines.

The learning and growth perspective recognizes the human element in an organization and looks at softer measures such as participation in suggestion programs and training. The BSC provides a framework to translate the strategic plan into specific tasks that frontline employees manage (Borror, 2009). On the other hand, sustainable balanced scorecard has additional measures on social and environmental issues that consider organizational sustainability (Hubbard, 2009). The emergence of concepts such as sustainable development and sustainability has caused a paradigm shift in how organizations measure performance.

The Stakeholders theory is relevant to the proposed study since it explains the concept of organizational performance. The ultimate goal of any organization is to maximum profits and the insurance firms are not exceptional. Hubbard (2009) observed that stakeholder theory assesses organizational performance against the expectations of a variety of stakeholders groups that have particular interests in the effects of the organization's activities. In the case of insurance companies, there are a number of stakeholders including customers and investors who have expectation in regard to the performance of the firms. These stakeholders expect the insurance firms to generate sufficient revenues from their investment. As such, insurance firms have an obligation to meet the expectations of their stakeholders. Therefore, the stakeholders' theory advances the financial performance variable in the proposed study.

2.2 Empirical Review

2.2.1 Influence of Organizational Governance Capability on Financial Performance

Hsu (2010) examined the effects of the dynamic capability for research and development, marketing, and production on performance. Furthermore, the research explored the separate moderating efforts of governance and competitive posture as they impact the dynamic capability on performance. This research examines the panel data of 242 high technology firms from 2001 to 2007 using Bayesian regression. The findings demonstrate that the impact of dynamic capability for research and development and production on performance is positive. Further, the research found that governance positively moderates the impact of dynamic capability for research and development on performance.

The ownership structure of organizations is important given that it is an internal mechanism of organization governance. Asava (2013) study explored the relationship between the different ownership identity structures and financial performance of commercial banks in Kenya. The study used descriptive research design. This finding, consistent with earlier findings showed the high monitoring capabilities of foreign owners and efficiency.

Government ownership had a negative relationship with asset quality, earnings quality and management efficiency indicating laxity in prudent credit management practices and also

inefficiency of operations and poor returns. Institutional ownership on the other hand showed a positive relationship with most of the parameters with an exception of some commercial banks. The study however presented a contextual gap since it focused on commercial banks and not insurance firms.

2.2.2 Influence of Organizational Financial Capability on Financial Performance

Lack of knowledge of financial management combined with the uncertainty of the business environment often leads organizations to serious problems regarding financial performances. Waweru and Ngugi (2014) explored the influence of financial management practices on the performance of Micro and Small Enterprises in Kenya. The study was guided by the following objectives: financial innovations, investing activities, risk management practices and working capital management. The study found out that financial innovations influence the performance of Micro and Small Enterprises in Kenya to a very great extent.

The study established that the reason for innovation in an organization is to make profit. However, the study focused on MSEs, thus presenting a contextual gap.

Today's markets are increasingly complex and competitive. Firms need to be able to pivot within a constantly evolving market environment. Disruption in markets is becoming more common. In the light of these dynamics, it is argued that financial knowledge and capabilities are essential ingredients for firm success. Financial knowledge and capabilities may help firms to manage their financial requirements in a timely and effective manner, leading to better firm performance. Sulaiman (2016) study examined the relationship between financial knowledge and capabilities and firm performance in Small and Medium Enterprises (SMEs) in Australia. The study found that a general business education (Master in Business Administration degree), and the firm's learning orientation to be the most influential determinants and drivers of firm performance. A generalized understanding of business and the ability to learn, adapt and pivot is what matters. Interestingly, the analysis demonstrates that Chief Financial Officer (CFO) experience and the financial resource dimensions do not significantly influence firm performance.

2.2.3 Influence of Organizations Human Resource Capability on Financial Performance

Muhura (2012) study examined the organizational capabilities as a source of competitive advantage at Airtel Kenya. In attempting to achieve the objectives of the study, a case study research design was adopted. An interview guide was used to collect data on strategic capabilities used by the organization in gaining competitive advantage. The data obtained from the interview guide was analyzed qualitatively using content analysis. The study established that the company's strategic capabilities that gave it a competitive advantage over the other mobile companies was in the human resource, physical infrastructure and the distribution network, strong brand, technology, market research, innovation and manpower development and talent nurturing. The respondents noted that the company has put in place mechanisms to safeguard its capabilities through confidentiality agreement to the staff and the partners, stringent policy on company assets, firewalls on information technology infrastructure, bonding policy on training.

Human resource capability is valuable, rare, irreplaceable, and difficult to imitate; therefore, it is crucial for creating sustainable competitive advantages. Human resource capability can be appropriately used to improve the performance of an organization. Chuang and Chen (2015) study adopted a process perspective to propose an integrated model that comprehensively considers the key variables of human resource capability and organizational effectiveness.

The research explored the effects of human resource capability, internal customer satisfaction and commitment, and organizational effectiveness. Based on research findings, insightful and practical guidance is suggested for leveraging human resource capability to enhance organizational performance.

2.2.4 Influence of Organizations Technology Capability on Financial Performance

Insurers are well versed in the litany of challenging conditions facing the sector. These challenges are economic, political, regulatory, legal, social, and technological. As a result of those pressures, the industry is experiencing increasing competition, muted growth, and an excess of capital. Rajapathirana and Hui (2017) observed that innovation is widely regarded as pinnacle success factor in highly competitive and global economy. Their paper sought to explore the relationship among innovations capability, innovation type and on the different aspect of firm performance including innovation, market and financial performance based on an empirical study covering insurance industry in Sri Lanka. The research framework developed in this study was tested 379 senior managers of insurance companies.

The results revealed that the relationship between innovation capabilities; innovation efforts and firm performance are significant and strong. However, the study was conducted in Sri Lanka, therefore presenting a contextual gap.

Deya (2016) study sought to establish the relationship between dynamic capabilities and competitive advantage of TVET Institutions in Kenya. Specifically, the study focused on Knowledge Management (KM) capabilities, Information Communication Technology capabilities Physical Infrastructural capabilities and curriculum capabilities. The study adopted a descriptive survey design. The study findings indicated a positive relationship between Dynamic Capabilities and Competitive Advantage of the TVET Institutions in Kenya. The study presents a contextual gap since it focused on TVET institutions while the proposed study will focus on insurance firms.

2.2.5 The moderating role of Government Regulation on the relationship between Organizational Capabilities and Financial Performance

Ratnawati, Pramono and Yuniarsa (2015) examined the role of government as a moderating variable in the relationship between orientation entrepreneurship, innovation and market orientation on business performance. These results indicate that a significant difference between entrepreneurial orientation on business performance, and innovation have a significant effect on the performance of the business, and then market orientation relates significantly to the performance of the business. The findings of this study proves that the government does not have a role in shaping the entrepreneurial spirit, because the entrepreneurial spirit has been formed in their environment and such acts are hereditary.

Mugo, Muathe and Waithaka (2017) study sought to determine the moderating effect of government policies on the relationship between mobile technology services and performance of Deposit-Taking Savings and Credit Cooperative Societies (SACCOs) in Kenya. Descriptive and explanatory research designs were adopted based on a sample of 86 Deposit-Taking SACCOs. The study found that government policies positively moderates the relationship between mobile technology services and performance of Deposit-Taking SACCOs implying that appropriate government policies that are favorable for the Deposit Taking SACCOs should be formulated.

2.2.6 The Mediating effect of Market Share on the relationship between Organizational Capabilities and Financial Performance

Genchev (2012) study explored the impact of market share on profitability measurements of banks in Bulgaria. The analysis was based on balanced panel data of 22 banks over the period 2006 to 2010. The survey results show that the relationship between market share and profitability of banks is positive and statistically significant. The study recommended that managers should come up with ways of improving their market share.

Yannopoulos (2010) examined the relationship between market share and profitability in light of evidence that market share and profitability may not be related directly but any observed relationship may be the result of a spurious correlation. It also tests the hypothesized U-shaped relationship proposed by Porter, and Sheth and Sisodia among others. The results obtained here do not support the positive market share profitability hypothesis. Also, we found no support for the U-shaped relationship.

In the age of cut-throat competition, maximization of profit has become a challenging job for the firms. They always try to control those factors which influence their profitability. Before the phase of monitoring the determinants of profitability, this is inevitable to identify the factors which affect the firms' capability to earn profit.

Aqil, Aziz, Dilshad and Qadeer (2014) examined the impact of Market Share on Profitability of Heavy Vehicles Manufacturers-A Case Study of Hino Pak Ltd. The correlation and regression analysis reveals that Market Share has a significant effect on Annual Profit, Return on Assets and Net Profit Margin. It means that greater the market share, greater the profitability of the firm.

2.3 Conceptual Framework

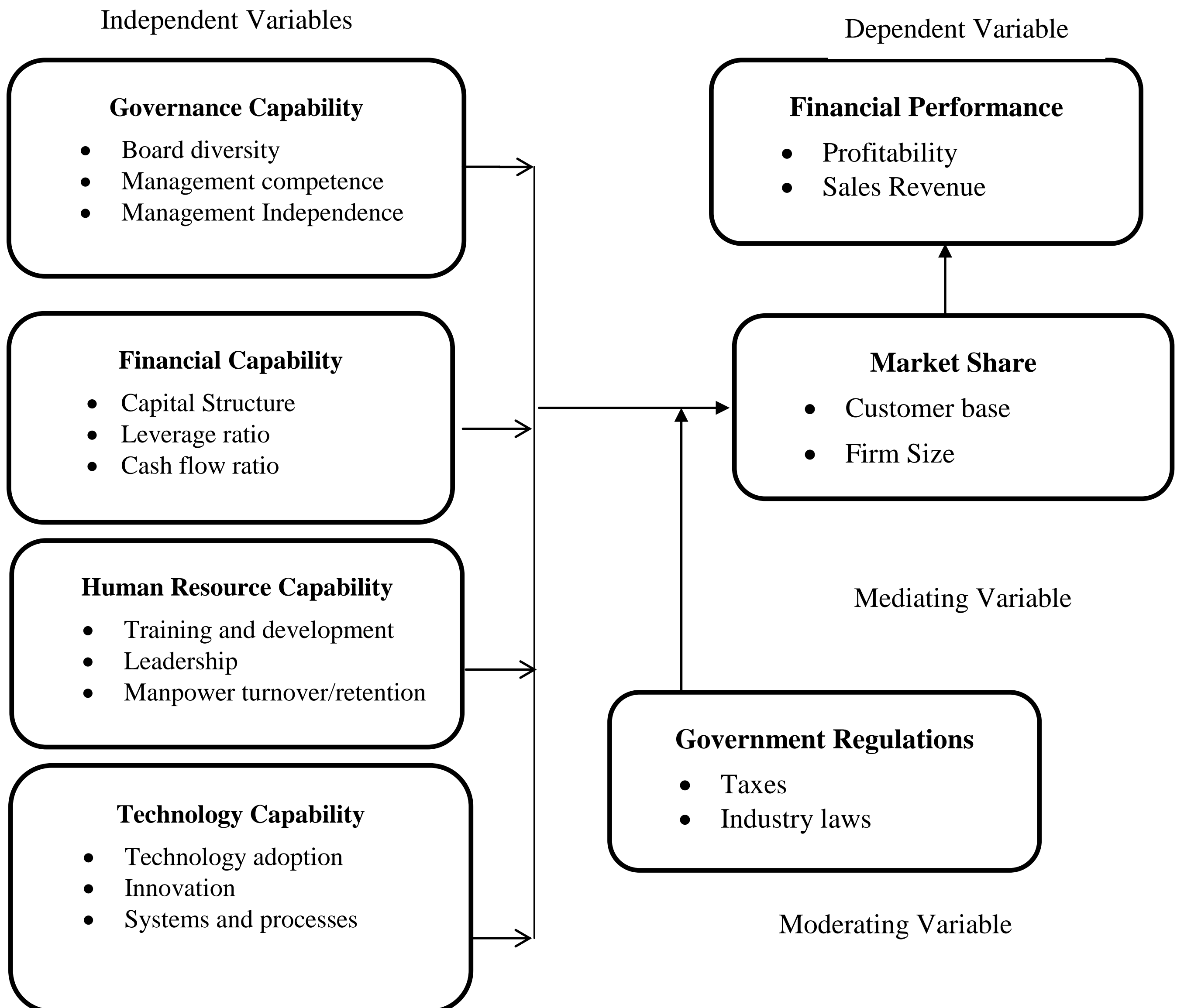

Figure 1: Conceptual Framework

3.0 METHODOLOGY

The paper adopted a desk top research design. The design involves a review of existing studies relating to the research topic. Desk top research is usually considered as a low cost technique compared to other research designs (Beal et al., 2012). In this case, the researcher collected information relating to the topic of the study. The purpose of the study was to establish the influence of organizational capabilities on the financial performance of insurance in Kenya.

4.0 RESULTS AND FINDINGS

From the reviewed literature on the relationship between organizational capabilities and financial performance of insurance, several research gaps emerge. Rajapathirana and Hui (2017) study focused on insurance industry in Sri Lanka. Alam, Arumugam, Nor, Kaliappan and Fang (2013) focused on manufacturing sector in Malaysian. Sulaiman (2016) studied Small and Medium Enterprises (SMEs) in Australia. Odumeru and Ilesanmi (2015) study empirically tests the effect of HRD on financial performance with employee competence and organizational commitment acting as mediating mechanisms in Nigeria. These studies present a contextual gap since they were conducted in different economic environments. It is therefore, impractical to generalize the findings to the Kenyan case.

Further, Ochola (2013) study examined the relationship between corporate governance and financial performance of Fund Managers in Kenya. Asava (2013) study explored the relationship between the different ownership identity structures and financial performance of commercial banks in Kenya. Waweru and Ngugi (2014) explored the influence of financial management practices on the performance of Micro and Small Enterprises in Kenya. Mwithiga (2016) investigated the relationship between financial literacy and enterprise performance among owner-managed ICT SMEs in Nairobi County. These studies reveal the presence of contextual gap since they were conducted in other industries/sectors and not insurance industry.

In addition, Hsu (2010) examined the effects of the dynamic capability for research and development, marketing, and production on performance and utilized panel data of 242 high technology firms from 2001 to 2007 using Bayesian regression. Muhura (2012) study examined the organizational capabilities as a source of competitive advantage at Airtel Kenya and analyzed qualitative data using content analysis. These studies present a methodological gap since they used different methodologies from the ones adopted in the proposed study.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Based on past literature the study concluded that government ownership had a negative relationship with asset quality, earnings quality and management efficiency indicating laxity in prudent credit management practices and also inefficiency of operations and poor returns. Institutional ownership on the other hand showed a positive relationship with most of the parameters with an exception of some commercial banks. This means that governance capability enhances organizational performance.

Further, lack of knowledge of financial management leads organizations to serious problems regarding financial performances. The study found out that financial innovations influence organizational financial performance a very great extent. The results revealed that the relationship between innovation capabilities; innovation efforts and firm performance are significant and strong.

Human resource capability is valuable, rare, irreplaceable, and difficult to imitate; therefore, it is crucial for creating sustainable competitive advantages. Human resource capability can be appropriately used to improve the performance of an organization. The study findings further showed that government does not have a role in shaping the entrepreneurial spirit, because the entrepreneurial spirit has been formed in their environment and such acts are hereditary.

In addition, the study concluded that market share has a significant effect on Annual Profit, Return on Assets and Net Profit Margin. It means that greater the market share, greater the profitability of the firm.

5.2 Recommendations

Based on the findings, the study recommended that insurance firms should capitalize on their capabilities and this will enhance their financial performance. Good governance practices are key to the success of organizations and, therefore, insurance industry should adhere to good governance, particularly, in management. The study also recommended the need for insurance firms to adopt effective financial management practices and this will lead to improved financial performance. Human resources are vital for the growth of an organization and insurance firms must invest in capacity building of their personnel. Technology is also critical in achieving competitiveness in a changing insurance market. As such, insurance firms should adopt the use of modern technology and this will improve their performance.

In addition, insurance firms should develop a culture of adhering to the guiding rules and regulations as stipulated in the regulations Act. Compliance with the regulations means less penalties and this will boost their financial performance. Finally, the insurance firms should strive to become and remain competitive both locally and internationally. This will mean increased market share and hence increased financial performance.

5.3 Areas for further studies

The study sought to establish the influence of organizational capabilities on the financial performance of insurance in Kenya. This study, therefore, focused on insurance in Kenya only, thus further studies could consider other developing countries for the purpose of making a comparison of the findings with those of the current study.

Further, the study examined only four organizational capabilities. Further studies could expand the scope and consider other organizational capabilities, such as marketing capabilities.

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