

FACTORS INFLUENCING PERFORMANCE OF INSURANCE INDUSTRY IN KENYA: A CASE OF SMALL AND MEDIUM INSURANCE COMPANIES IN NAIROBI COUNTY

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ABSTRACT

Though insurance sector has been in existence in Kenya since 1880's the growth of the Industry still remains very slow, Small and Medium Insurance Companies continue to experience declining performance despite the sector being a promising contributor to the economy. Therefore, the purpose of this study was to establish the factors influencing performance of insurance sector in Kenya specifically the small and medium insurance companies within Nairobi county. The specific objectives were to investigate the influence of human capital, establish the role of customer service and the contribution of insurance organisation culture in the performance of the Small and Medium Insurance Companies. The study was based on resource based value theory and customer satisfaction theory. The significance of the study contributed to the policy formulation by the relevant authority bodies and contributed additional information to the existing knowledge and formed a basis for comprehensive research on this area of study. The study adopted the descriptive survey using questionnaires to understand and describe the phenomenon under study. The target population comprised of 3 small and 4 medium insurance privately owned companies with net premium turnover of below kshs.550M, licensed as at 2014 to underwrite General insurance business. A sample of 103 employees was used. Purposive sampling was applied to identify the respondents from each of the Small and Medium Insurance Companies where they selected randomly from each level of management. Pilot study was conducted to pre-test the reliability and validity of the

research instruments. Primary data was collected through questionnaires designed with closed ended questions and the secondary data was collected from the published audited accounts by AKI. Data from the questionnaires was processed through editing and coding and then entered the data in the computer for analysis using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) and the Excel spread sheet. The Descriptive analysis was important since it provided the foundation upon which further studies should be conducted. The qualitative data was analysed through content analysis. For the quantitative data, responses were coded, tallied and their frequencies and percentages identified. For the qualitative data, similar responses were coded and tallied after which deductions were made. In addition advanced statistical techniques (inferential statistics) were used. Regression analysis was used to determine the relationship between the independent and dependent variables. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis.

The findings shows that taking all other independent variables at zero, a unit increase in human capital will lead to an increase in the scores of the performance of insurance industry. The study also established a significant relationship between performance of insurance industry in Kenya and the independent variables; human capital, customer service and organizational culture. The study concludes that the organization ensured that the customer service team had the right skill and competence. On the basis of this study it can be concluded that

organizational culture has a positive impact on the employee's job performance. The study recommends that the companies should come up with some effective plans especially in investing various aspects of human capital so as to attain greater performance and also to ensure firms remain competitive. It is also recommends that since a company or organization must be totally committed to delivering consistently high standards to

gain and retain customer loyalty. The study further recommends that the insurance firms should inspire employees with creative energy to enhance their insurance organisational culture that will push the organization forward towards desired goals.

Key Words: *performance, insurance industry, Kenya, small and medium insurance companies, Nairobi County*

INTRODUCTION

Today, the Kenyan economy hosts 49 insurance companies underwriting general business and life business or both, which is one of the highest among the 53 African countries. The sub-sector's stakeholders comprises of Reinsurance companies, Insurance Brokers, Loss Assessors and Investigators, Loss Adjusters, Insurance Surveyors, Claims Settling Agents, Risk Managers and Insurance Agents. In the year 2014, the total Net Premium underwritten for the year stood at Ksh.42 billion, 3 Medium insurance companies contributed 1.6 billion while 1.4 billion was underwritten by 4 Small Insurance companies. This contribution by Small and Medium insurance companies cannot be wished away in view of the many livelihoods it has created and continue to create in line with the Millennium Development goals to eradicate poverty. The Insurance penetration decreased to 2.9% compared to 3.4% in 2013. The low penetration highlights the significant opportunities that exist in the Kenyan Insurance Market (AKI, 2014).

Small and Medium Insurance Companies have unique challenges and therefore cannot be able to attract and retain competent human capital therefore experience frequent exodus of human capital to the big Companies with financial stability. The competition is very stiff for Small and Medium Insurance Companies and cannot compete with the big Insurance firms on big jobs (Peter and Waterman, 1982). The criteria set by the Government and parastatal bodies to tender for their jobs is dependent on business turnover making it difficult for the Small and Medium Insurance Companies to participate in the tendering process. The Small and Medium Insurance Companies lacks capacity and credibility to handle big volumes of businesses a factor that contributes to slow growth . The big companies continue to enjoy the monopoly of handling big businesses from the Government and remain the most preferred underwriters by the big individual clients who demand quality customer service while the Small and Medium insurance companies struggle to grow.

The Kenyan Government, being aware of the role Small and Medium Enterprises (SMEs) play in the economy, has taken steps to develop a legal and regulatory frame work aimed at guiding and accelerating the growth of this sector. Therefore any attempt by the government to grow the economy would logically include development and sustenance of the SMEs

sector. The Government through the Industry regulator is mandated to develop and protect the local Insurance Industry and ensure fair play in the way business is conducted, the Small and Medium Insurance companies should be protected by the Regulator by formulating policies that correspond to their financial abilities bearing in mind that they serve a certain market that collectively contribute to the growth of this sector. The new capitalisation requirement implementation is likely to put financial strain to the Small and the Medium players while the big players will not face major challenges in raising the required capital of Ksh.600 million for General Insurance business and 400 million for Life business by 2018.

The struggle for the SMEs to survive seems threatened as indicated by a report released by Deloitte (2015) indicating that Insurers in East Africa should brace for more dynamic mergers and acquisitions as competition in the industry undermines the ability of established insurers to raise or even maintain pricing levels. According to Deloitte report, an influx of new capital flows from sources such as private equity funds and foreign insurers is expected to enhance the overall capacity of the industry, thus leading to cut-throat competition. These will in turn kick-start mergers and acquisitions in the short to medium term as insurers seek efficiencies from economies of scale, a phenomenon that has already started unfolding over the past two years.

Every organization is established with certain objectives to achieve (Hitt et al., 2001). These objectives have economic outcomes resulting from the interplay of the firm's attributes, actions and the environment that is highly complex, diverse, uncertain and competitive (Combs et al., 2005). Organizations create synergy to address specific variables that leads to superior financial performance. The firm's human capital is an important source of sustained competitive advantage and therefore investments in the human capital of the workforce may increase employee productivity and financial results (Pfeffer, 1998)

The Organizational culture is an internal binding factor that influences how the firm interacts with employees and external stakeholders. Culture is reflected through the shared values in team's activities as well as shaping behavior that delivers on performance of the organization. According to Deal and Kennedy (1982) performance is linked to deliberate efforts by management in developing organizational culture. The supporters of a positive relationship between the two variables argue that strong culture is necessary for superior performance (Deal and Kennedy, 1982).

The service industry, Insurance inclusive is characterized by extensive customer involvement. Thus, customer's satisfaction is closely associated with service performance. The service industry need to know their customers, understand their needs and provide services that fulfill these needs in order to win them and keep them away from competitors (Eisingerich and Bell, 2006). Retaining current customers is much less expensive than attracting new ones. A satisfied customer leads to brand loyalty, repurchase intention, repeat sales and customer retention and ultimately profitability (Gan et al., 2006). An Organization that offers outstanding services, would increase her customer base more rapidly than her competitive

rivals. Odindo and Delvin(2010) noted that increased customer satisfaction has potential to enhance organizational performance.

From the above consideration, this study's objective is to establish the relationship between the Human capital competence, culture of the organization, customer service and the organization performance in the Insurance industry especially in the SMEs. Little is known about the impact of the variables particularly in the Insurance industry.

STATEMENT OF THE PROBLEM

The Insurance Industry has witnessed a growing decline in the number of successful companies over the years (AKI, 2012). Small and Medium size insurance companies continue to witness declining performance, a trend that is likely to continue and is likely to discourage potential investors from investing in the Insurance business for fear of losing their investment. This trend has led to many prospective clients shying away from taking Insurance covers from the Small and Medium Insurance companies for fear of not being compensated in the event of loss .This has left the Small and Medium Insurance companies with no choice but to accept any residual business that is also likely to culminate into definite claims and escalate the loss ratios making them more riskier to transact business with. This trend is likely to result to loss of jobs as companies result to downsizing as a sustainability strategy. Employee's mobility from the Small and Medium Insurance Companies to the big Insurance companies are on the rise especially the skilled human labour. The SMEs are viewed as staff training ground for the big companies. Under these circumstances the performance of the Small and Medium Insurance business will continue to worsen resulting in loss on investment, loss of jobs and high rate of unemployment in the country. As a result of closure/mergers of SMEs the level of unemployment will rise and result to higher crime rate, higher poverty levels whose effects are likely to trickle down to the economy of the county.

It is on this background that the study undertook to establish the relationship between human capital competence, organizational culture, customer service and performance of a Small and Medium Insurance Companies located in Nairobi County.

PURPOSE AND OBJECTIVE OF THE STUDY

The main objective of this study was to establish the factors influencing performance of insurance industry in Kenya specifically the small and medium insurance companies within Nairobi county.

SPECIFIC OBJECTIVES OF THE STUDY

1. To establish the influence of human capital on the performance of Small and Medium Insurance Companies in Kenya.
2. To Determine the influence of customer service on the performance of Small and Medium Insurance Companies in Kenya
3. To establish the role organisational culture plays on the performance of Small and Medium Insurance Companies in Kenya.

THEORETICAL REVIEW

The chapter reviews the various theories that are related to the objectives of study which also provides the basis for establishing the hypothesis to be tested in the study (Mugenda and Mugenda,2003).There are many theories that explain the performance of an insurance organisation. However, this study will be based on Resource based theory according to (Grant, 1991) and Customer satisfaction theory (Oliver, 1997)

Resource Based Theory

Resource based theory is a method of analysing and identifying a firm’s strategic advantages based on examining its distinct combination of assets, skills, capabilities and intangibles in insurance organisation. Firms differ fundamentally because each possesses a unique combination of resources that include tangible and intangible assets as well as organisational capabilities to make use of those assets. Therefore, firms build on the unique resources, skills and capabilities are able to control or develop which can become the basis of unique, sustainable competitive advantage (Pearce & Robinson, 1998).

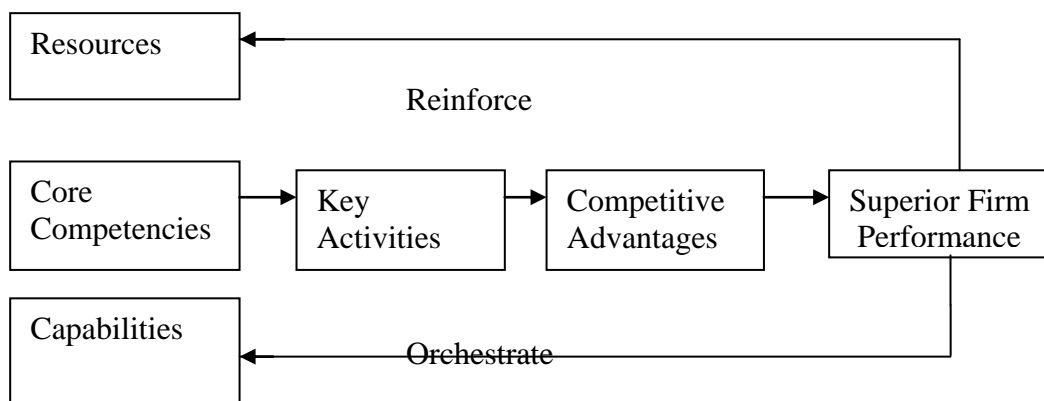


Figure: 1. Resource Based Theory

Source: (Grant, 1991)

Thus the resource of the firm may determine its capability and improve the performance of the Small and Medium Insurance Firms. The resource based theory suggests that a firm can sustain its competitive advantage if it is able to generate sustainable economic rent through its ability to identify, develop display and preserve particular resources and distinguish these from its rivals. Intangible resources such as know-how, skills, knowledge, perceptions, culture and network that are heterogeneous and immobile in nature have received a lot of attention as to its impact on firm performance (Haber & reichel, 2005). Additionally, any resource is able to create a competitive advantage if it has certain features. The supporters of the RBV argue that organizations should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it (Peteraf, Amit and Schoemaker, 1993)

Knowledge has become a direct competitive advantage for companies selling ideas and relationships. The challenge to insurance organisations is to ensure that they have the capability to find, assimilate, compensate and retain the talented individuals they need (Armstrong and Baron, 2005). This theory has been criticised that competences take so long to develop and environments change so rapidly therefore any beneficial match between an organisation's competences and its environment is likely to be accidental or fortuitous rather than the result of pre-meditated actions by managers (Hannan and Freeman, 1988).

Although the resource-based theory has emerged as one of the substantial theory of strategic management, it has over looked the role of entrepreneurial strategies and entrepreneurial abilities as one of the crucial sources of firm performance (Burgelman, 2003). The theory also failed to support the link between customer service and organisation culture and the performance of insurance firms. Priem and Butler (2001) suggested that the internal resources of a firm rather than the external environment around the firm are possibly the primary source of performance differences among firms.

In addition, if the firms want to realize their competitive advantage to maximize their profit from the resources they possess, they have to take into account of the demand-side characteristics that influence on the final price of their output. The values of resources are determined by demand side characteristics, and those are also exogenous to the RBV model (Priem and Butler, 2001). According to Reed and Defillippi (2010) there is no information on the competitive advantage among firms that will result in super-normal profit, on the contrary, a posteriori the existence of the competitive advantage by virtue of the existence of super-normal profit. After all, the emphasis is on how to sustain such a valuable resource over the long term without adequate appreciation of its economic value. Therefore it is open to criticism that the RBV contains a theory of sustainability but not a theory of firm performance (Priem & Butler, 2001).

Customer Satisfaction Theory

The theory of customer satisfaction is based on identifying and satisfying customers' needs and exceeding their expectations. A Company must be loyal, committed to delivering consistently high standards of service to gain and retain customers' loyalty. Everyone from top management must be tuned into what the customer wants, creating a customer service culture can help build success. Customer satisfaction, loyalty is inextricably linked to the quality of customer service and ultimately to the Company's profitability. The relationship between the customer and the firm can be referred to as return on relations (ROR) (Kathryn and Martin, 1998). This method is never reflected on the financial reports, However it is widely acknowledged that it is at least five times more expensive to get a new customer than to keep an existing one.

Insurance is a service that involves highly intangible actions like building trust with the customer where professional skills and considerable experiences are required to successfully provide the service and where complex personal interactions between server and customer are involved. According to Oliver (1997) companies tend to under-invest in service capacity in the ability to provide services at a given quality level, experience levels and skills.

Decision-makers end up assessing capacity and basing it on expenses and production figures, which may be unrelated to service quality. The consequences of under investment is low levels of service that might culminate in possible high cost of poor quality (e.g. rework) low customer loyalty, high turnover of service personnel and mediocre financial performance. Under-investment in service capacity is frequently masked by eroding operating standards in serving people and customers who come to terms with mediocre service and justify current performance based on past performance rather than on absolute standards or goals.

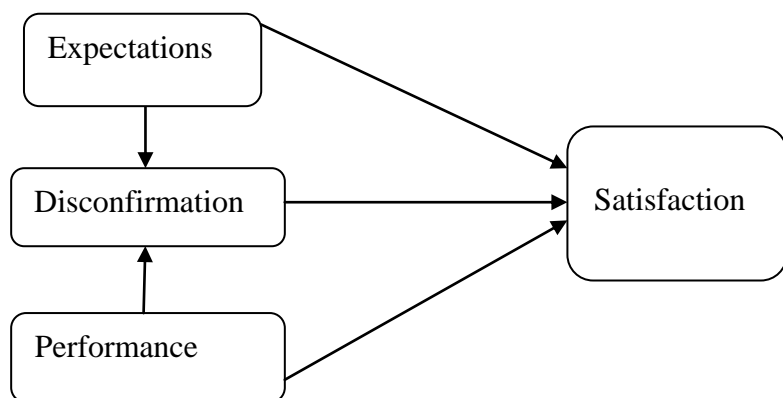


Figure 2: Customer Satisfaction Theory (EDP)

Source: (Oliver, 1997)

Oliver (1977; 1980) proposed the Expectancy –Disconfirmation Paradigm (EDP) as the most promising theoretical model for the assessment of customer satisfaction. The model implies that consumers purchase goods and services with pre-purchase expectations about the anticipated performance. If expectations are met then the product/service confirms the outcomes, if the expectations do not meet the outcomes disconfirmation occurs and the customer is likely to shift to other products or services. Identifying where value resides from the stand point of the customer has become critical to suppliers because greater levels of customer satisfaction lead to greater levels of customer loyalty and repeat buying, this leads to profitability of the firm. Delivering superior value of customers is the key to creating and sustaining long term industrial relationships (Hollensen, 2003).

However, the customer satisfaction customer satisfaction theory has a number of weaknesses. First, the approach postulates that there is a relationship between expectation and satisfaction but does not specify how disconfirmation of an expectation leads to either satisfaction or dissatisfaction. Next, the theory also postulates that consumers are inspired enough to adjust either their expectations or their perceptions about the performance of the product (Forman, 2006). According to Peyton and Kamery (2003), if the consumer adjusts either expectations or perceptions about product performance then dissatisfaction would not be an outcome of the post usage evaluation process. A number of scholars such as Olson and Dover (2009) have found that controlling for actual product performance can lead to a positive relationship between expectation and satisfaction. Therefore, Bitner (2007) argues that it would seem that dissatisfaction could never occur except the evaluative processes were to begin with negative consumer’s expectations.

Attempt by researchers to empirically test the customer satisfaction theory have met with varied results. For instance, Anderson (2003) found some evidence to support the customer satisfaction theory approach. In debating both of these studies, Oliver (2003) argues that Anderson (2003) findings cannot be accepted because they only measured expectations and supposed that there were perceptual differences between disconfirmation or satisfaction. This criticism is of some significance because researchers do not actually measure satisfaction or dissatisfaction; instead, researchers usually assumed that it is the perception of disconfirmation that leads to satisfaction or dissatisfaction (Hansemark and Albinson, 2004). In contradiction to the findings supporting the customer satisfaction theory, Cadotte et al., (2003) reported negative correlation between expectation and disconfirmation. They therefore resolved that satisfaction is truly an additive function of the two concepts. Further, Parasuraman (2005) asserts that uncertainty was created by results of studies from the works of Oliver (2009), which found no relationship between expectation and disconfirmation. Moreover, Poisz and Grumbkow (2008) in consumer expectations, product performance and perceived product quality supported the customer satisfaction theory. However, it has been found that if the discrepancy was too large to be assimilated, then the contrast effect occurs.

Customer satisfaction is the necessary foundation for the company to retain the existing customers. A satisfied customer is a source of income to the company by repeat purchase. Customer service is also source of information for all stake holders (customers, public, policy makers, competitors and investors. It is also an indication of future possible revenue measure for company performance (Guo, Xiao and Tang, 2009). Insurance service is inclusively characterised by extensive customer involvement. Thus, with the interactions between customers and other stakeholders, thus customer satisfaction is closely associated with service performance.

CONCEPTUAL FRAMEWORK

Conceptual framework is a hypothesized model in identifying the concepts under study and their relationship. The purpose of the conceptual framework is to quickly see the proposed relationships. The conceptual model will be put to test in order to establish the significance of the study and the proposed relationships (Mugenda and Mugenda, 2003). An intervening variable is a hypothetical variable used to explain causal links between other variables. Hollensen (2003) states that, macro-economic variables are such factors that are pertinent to a broad economy at the regional or national level and affect a large population rather than few selected individuals. According to Olson and Dover (2009) insurance performance is determined by some fundamental macro-economic variables such as industry regulations, moral hazards, interest rate, Gross Domestic Product (GDP), exchange rate, inflation unemployment, money supply, stock market and FDI which are closely monitored by the government, businesses and consumers. Industrial regulations measures are desperately needed to minimise the negative effects that may arise from relaxing regulations and opening markets. Such reforms also play an important role in protecting consumers' interests and strengthening the competitiveness of the industry. In fact, it is hard to overstate the effects of that adverse selection and moral hazard associated with insurance played during the financial crisis (Poisz and Grumbkow, 2008).

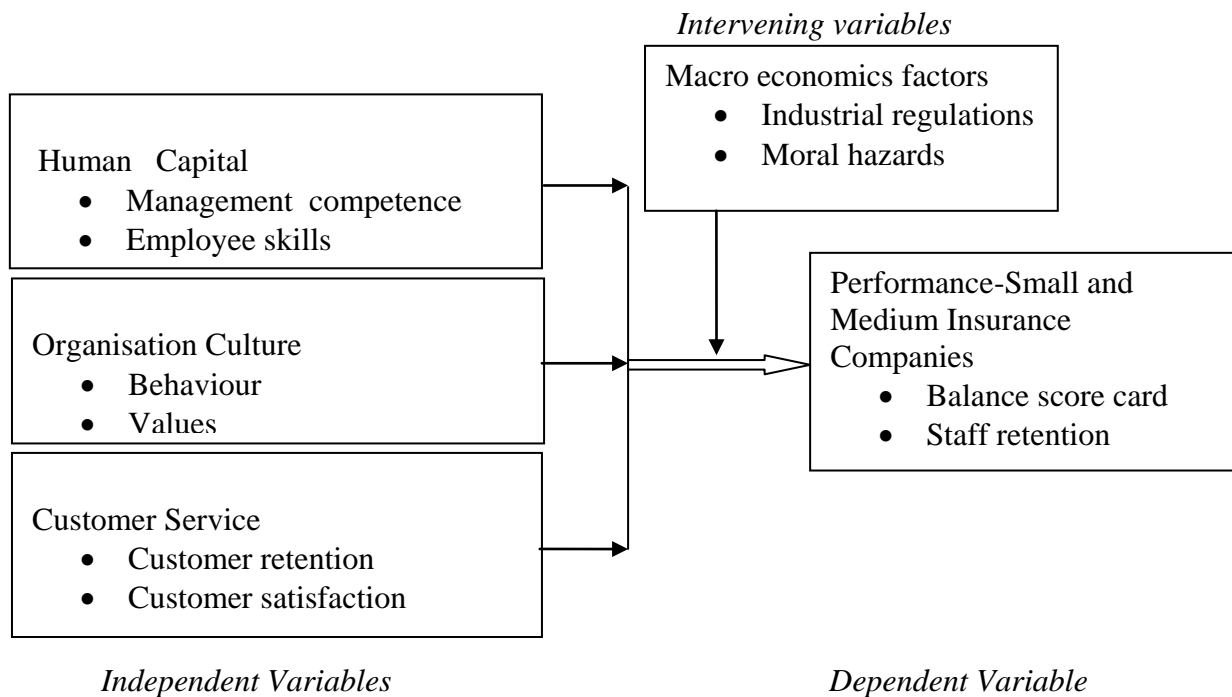


Figure 3: Conceptual Frame Work

Source: Author (2015)

Human capital is one of the most important factors that can contribute towards economic growth of a country (Perez and Pablos, 2003). When employees possess knowledge and the right skills they are likely to link the firm’s strategy in their day-to-day activities and how it impacts on the firm’s performance. At the micro level the term refers to knowledge, skills and abilities of the employees in insurance organisations and can be ‘made’ by developing existing staff through training and development or ‘bought’ by attracting new staff with the skills and knowledge required (Edvinson and Malone, 1997).

Organisational culture works as a social glue to bond the employees together and make them feel a strong part of the corporate experience, which is useful to attract new staff and retain the best performers. A strong culture can be a driving force to improve the employee’s performance, enhance self-confidence, commitment, reduce job stress and improve the ethical behaviour of employees.

Customers’ service play a critical role in the service experiences and evaluations. A satisfied customer and employee are important to the profitability in insurance organisation. It is therefore the duty of the management to put in place mechanisms that would ultimately generate satisfied customers and employees. The Independent variables in this study are Human Capital, Organization Culture and Customer service while the dependent variable is the Performance of SMEs specifically the Small and Medium Insurance Companies.

RESEARCH METHODOLOGY

The study used descriptive survey. Descriptive survey is the investigation in which quantitative data is collected and analyzed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the current time (Nyororo, 2006). This design was preferred because very large samples are feasible, making the results statistically significant even when analyzing multiple variables. Surveys are useful in describing the characteristics of a large population. The target population of the study consisted of 7 Small and Medium Insurance Companies licensed by the commissioner of Insurance as at 2014 and located within Nairobi (Commissioner of Insurance, 2014). Medium and Small Insurance Companies with net premium turnover of below 550 million Kenya shillings and had a maximum work force of 334 staff members was the study population. According to AKI report (2014), the net premium of 550 million Kenya shillings is categorised as small in view of the net premium underwritten by one of the big insurance company of over 9 billion (see Appendix V for the sampling list of the insurance companies).

Sampling is a procedure adopted to arrive at the sample size. The criteria need to be specified to determine the appropriate sample size. According to (Mugenda & Mugenda, 2003) when the sample size is too small it would be advisable to study the whole population the researcher would adopt census. Since the companies were few the sample size comprised of 3 Small and 4 Medium Insurance Companies. According to Mugenda and Mugenda (2003) a sample size of between 10 percent and 30 percent is a good representation of the target population. Based on the above, the researcher used a sample size of 30 percent of the population which was sufficient. This resulted to a sample size of 103 respondents who formed the Purposive stratified sampling which was applied to identify the respondents from each of the Small and Medium Insurance Companies where they were selected randomly from each level of management. The study collected both primary and secondary data. Primary data was collected using a questionnaire. The quantitative data collected from the field was cleaned for errors before it is entered into a database, this developed earlier before data entry started, where it was later analyzed using SPSS. The qualitative data was analyzed using content analysis method. Simple regression analysis was used to test the relationship between and among variables. The regression model used is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

Y = Performance of insurance industry

β_0 = Constant Term

β_1 = Beta coefficients

X_1 = Human capital

X_2 = Customer service

X_3 = Organisational culture

ϵ = error term (residual term that includes the net effect of other factors not in the model and measurement errors in the dependent and independent variables).

RESEARCH FINDINGS

Human Capital and Performance

According to research findings, the extent human capital contributed to performance was rated to an average score of 3.63; the level of education, skill and experience of an employee contributed to performance to a great extent as shown by a mean score of 4.13, the nature of working environment contributed to performance to a great extent as shown by a mean score of 4.01 and delegation of duties by the management in the organization contributed to performance to a great extent as shown by a mean score of 3.77. Opportunity for employees to take initiative and proactive moves in the organization contributed to performance to a moderate extent as shown by a mean score of 3.50, allowing participation of employees in key decision making in the organization contributed to performance to a moderate extent as shown by a mean score of 3.39, provision of opportunity for advancement by the organization contributed to performance to a moderate extent as shown by a mean score of 3.39 and ability of the company to develop its own competences from within contributed to performance to a moderate extent as shown by a mean score of 3.27.

Customer Service and Performance

The study findings showed that customer service contributed to performance as rated to an average score of 3.23; the organization offered opportunities for training, seminars and workshops to employees to a great extent as shown by a mean score of 3.88 and the organization protected its employees from external conflicts to a great extent as shown by a mean score of 3.75. The organization ensured that the customer service team had the right skill and competence to a moderate extent as shown by a mean score of 3.50, the firm ensured service quality in servicing its customers to a moderate extent as shown by a mean score of 3.50, the organization responded to customer complains to a moderate extent as shown by a mean score of 3.38, the organization created its products/services keeping the customers needs in mind to a moderate extent as shown by a mean score of 3.38 and the organization was pleased with the current rate of customer retention to a moderate extent as shown by a mean score of 3.00. The company viewed the marketing department as the only department in charge of customer service to a moderate extent as shown by a mean score of 2.75, there was fast claim settlement to a moderate extent as shown by a mean score of 2.63 and the organizations continually seek feedback from its clients to a moderate extent as shown by a mean score of 2.62.

Organization Culture and Performance

As per the findings, organization culture contributed to performance as rated to an average score of 3.53; the organization had the ability and the capacity to pursue opportunities to a great extent as shown by a mean score of 4.38, the organization had a high respect for traditions and culture to a great extent as shown by a mean score of 3.87, in the organization, all decision making was done by the management to a great extent as shown by a mean score of 3.75 and the organization viewed competition as a motivational factor for improvement to a great extent as shown by a mean score of 3.63. The employees were satisfied with

organizations routines and procedures to a moderate extent as shown by a mean score of 3.50; the organization allowed employees to come up with new ideas and methods to enhance performance to a moderate extent as shown by a mean score of 3.38, the organization did not allow an employee to contradict with the managements decisions whatsoever to a moderate extent as shown by a mean score of 3.00 and the organization had a routine of carrying out its activities that could not be altered to a moderate extent as shown by a mean score of 2.75.

Performance of the Organization

The study findings showed that performance in the respondents’ organizations was rated to an average of 3.11; the organization owned its premises and had the capacity to run new projects to a great extent as shown by a mean score of 4.25. Staff turnover had reduced to a moderate extent as shown by a mean score of 3.38, the company resourced utilization to a moderate extent as shown by a mean score 3.13, the overall performance of the organization last year was to a moderate extent as shown by a mean score 2.88, the firms growth in market share was to a moderate extent as shown by a mean score 2.38 and the balanced score card had been modified to suit the managers organization to a moderate extent as shown by a mean score 2.63.

Regression Analysis of the Findings

The researcher conducted a multiple linear regression analysis so as to determine the relationship between the factors affecting performance of insurance industry and the four independent factors namely: human capital, customer service and organizational culture.

The regression equation was

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

- Whereby Y =Performance of insurance industry
- X₁ = Human capital
- X₂ = Customer service
- X₃ = Organizational culture

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	0.843	0.7106	0.704	0.4216

- a) Predictors: (Constant), human capital, customer service and organizational culture.
- b) Dependent variable: Performance of insurance industry

The study used the R square. The R Square is called the coefficient of determination and tells us how the performance of insurance industry varied with human capital, customer service and organizational culture. The four independent variables that were studied explain 70.4% of the factors affecting performance of insurance industry as represented by R Squared

(Coefficient of determinant). This therefore means that other factors not studied in this research contribute 29.6 % of the factors affecting performance of insurance industry in Kenya.

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.72	4	2.930	65.111	.000(a)
	Residual	3.432	77	0.045		
	Total	15.152	81			

a) Predictors: (Constant), human capital, customer service and organizational culture

b) Dependent Variable: Performance of insurance industry

The study used ANOVA to establish the significance of the regression model from which an f-significance value of p less than 0.05 was established. The model is statistically significant in predicting how human capital, customer service and organizational culture affect performance of insurance industry in Kenya. This shows that the regression model has a less than 0.05 likelihood (probability) of giving a wrong prediction. This therefore means that the regression model has a confidence level of above 95% hence high reliability of the results.

Table 3: Coefficients Results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.116	.186		0.623	.535
Human capital	0.577	.068	.559	8.478	.000
Customer service	0.157	.043	.257	3.676	.036
Organizational culture	0.082	.042	.301	2.252	.020

a) Predictors: (Constant), human capital, customer service and organizational culture

b) Dependent Variable: Performance of insurance industry

The established regression equation was

$$Y = 0.116 + 0.577X_1 + 0.157X_2 + 0.082X_3 + \varepsilon$$

The regression equation above has established that holding all factors (human capital, customer service and organizational culture) constant, factors affecting performance of insurance industry will be 0.116. The findings presented also shows that taking all other independent variables at zero, a unit increase in human capital will lead to a 0.577 increase in the scores of the performance of insurance industry. A unit increase in customer service will lead to a 0.157 increase in performance of insurance industry. On the other hand, a unit increase in organizational culture will lead to a 0.082 increase in the scores of the performance of insurance industry. This infers that human capital influences the performance of insurance industry most followed by organizational culture and then customer service. The study also established a significant relationship between performance of insurance industry in

Kenya and the independent variables; human capital ($p=0.00<0.05$), customer service ($p=0.036<0.05$) and organizational culture ($p= 0.20<0.05$) as shown by the p values. The researcher dropped the regression model because $p>0.5$ and $t<1.96$. Therefore the restated model is as follows:

$$Y=0.577X_1+0.157X_2+0.082X_3+ \epsilon$$

Non-parametric correlation

A Spearman correlation is used when one or both of the variables are not assumed to be normally distributed. The values of the variables were converted in ranks and then correlated. The study correlated human capital, customer service and organizational culture under the assumption that both of these variables are normal and interval.

Table 4: Correlation Matrix

			human capital	Customer service	Organizational culture
Spearman’s rho	human capital	Correlation	1.000	.617	.547
		Coefficient	.	.000	.000
		Sig. (2-tailed)	84	84	84
			N		
	Customer service	Correlation	.617	1.000	.437
		Coefficient	.000	.	.000
		Sig. (2-tailed)	84	84	84
			N		
	Organizational culture	Correlation	.547	.437	1.000
		Coefficient	.000	.000	.
		Sig. (2-tailed)	84	84	84
			N		

The results suggest that the relationship between human capital and customer service ($\rho = 0.617, p = 0.000$) is statistically significant. Similarly, human capital and organizational culture had a rho of 0.547 and a p value of 0.000 therefore denoting statistical significance. Customer service and organizational culture had a rho of 0.437, $p=0.000$ further pointing to a statistical significance. This therefore is statistically significant.

IMPLICATIONS FOR THEORY, POLICY AND PRACTICE

Theoretical implications were brought by this study’s findings and contributions. Firstly, this study’s findings confirm the validity of the relationships between variables. It verifies the significant relationship between human capitals, customer service and organization culture’s contribution to performance. Secondly, past studies mostly focused on examining the relationship between organization culture, customer service and human capital contribution to performance in business companies in other counties. However, the contribution of human capitals, customer service and organization culture’s contribution to performance of employees in companies in Nairobi County have yet to be tested, or only has little evidence concerning this type of study. Thus, this research’s findings have filled the gap.

Based on resource theory, a firm's strategic advantages are a combination of assets, skills, capabilities and intangibles in insurance organisation. Firms differ fundamentally because each possesses a unique combination of resources that include tangible and intangible assets as well as organisational capabilities to make use of those assets. Therefore, firms build on the unique resources, skills and capabilities are able to control or develop which can become the basis of unique, sustainable competitive advantage (Pearce & Robinson, 1998).

According to customer satisfaction theory, a company must be loyal and committed to deliver high standards of service to gain and retain customers' loyalty. Everyone from top management must be tuned into what the customer wants, creating a customer service culture can help build success. Customer satisfaction is inextricably linked to the quality of customer service and ultimately to the Company's profitability. The relationship between the customer and the firm can be referred to as return on relations (ROR) (Kathryn and Martin, 1998).

In this study, the independent variables; human capitals, customer service and organization culture, have a strong relationship with performance of small and medium insurance companies in Kenya. This can provide some insights as well as feedbacks to Kenyan's insurance human resource personnel and administrators for drafting policies and strategies to increase performance in the organizations.

Based on the regression analysis, human capitals, customer service and organization culture can be applied on the Kenya's insurance companies to increase performance. Through findings, human capitals, customer service and organization culture can be used to enhance an organization's performance. Therefore, through this finding, we suggest Kenya insurance companies to be more attentive on their human capitals, customer service and organization culture by designing a better assessment policy so as to manage and increase performance in the organizations.

CONCLUSIONS

The study results give empirical evidence that the relationship between human capital investment and organizational performance is statistically significant. Human capital is a tool for value creation for sustainable organizational performance. Thus, the higher the human capital the better the firm performance.

The study also concludes that the organization ensured that the customer service team had the right skill and competence, the organization sought feedback from clients and the organization ensured that its products and services kept the customer needs in mind this is because good customer service contributed significantly on performance of the organization.

On the basis of this study it can be concluded that organizational culture has a positive influence on the employee's job performance. Every individual in the organization has different culture and they first try to adjust with the norms and values of the organization. The adoption of culture of the organization is helpful for the employees to do their work efficiently and effectively.

RECOMMENDATIONS

Insurance organisations can increase their human capital to enhance performance by attracting individuals with high skills from the external labour market and by externally developing the skills of their current members through in-house training and also developing the participation of employees. Managers should also build their organisations around resources that are valuable, rare, and unique and lack substitutes hence the firm should care for and protect resources that possess these characteristics, because doing so improves insurance organisational performance. Therefore, companies should come up with some effective plans especially in investing various aspects of human capital so as to attain greater performance and also to ensure firms remain competitive.

Insurance organisations must be totally committed to delivering consistently high standards to gain and retain customer loyalty. Everyone in an insurance organization from top management downwards must be tuned into what the customer wants. Creating a customer service culture within a company helps build success. Customer satisfaction and loyalty are greatly linked to the quality of customer service and, eventually, to the company's profitability.

Strong corporate cultures ease communication of roles and responsibilities to all individuals. A positive organisational culture provides immense benefits to the insurance organisation, and thereby a leading competitive edge over other firms in the industry. Thus the insurance organization should inspire employees with creative energy that will push the organization forward towards desired goals.

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ANNEX: Sampling List of the Insurance Companies

Medium companies (Net premium turnover of Kshs 547M –Ksh553M)

	Year 2014 ‘000’
GATEWAY	547,719
TAUSI	553,597
TAKAFUL	548,767

Small companies (Net Premium turnover of Kshs 546 M and below)

	Year 2014 ‘000’
CORPORATE	270,580
PHOENIX	205,596
TRIDENT	480,008
MONARCH	507,902

Source: (AKI, 2014)