HUMAN CAPITAL, EMPLOYEE EMPOWERMENT AND PERFORMANCE OF COMMERCIAL BANKS AND INSURANCE FIRMS IN KENYA

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ABSTRACT

The purpose of the study was to establish whether the influence of human capital on the performance of insurance firms and commercial banks in Kenya is moderated by employee empowerment. The study adopted a descriptive cross-sectional survey design and a census survey was carried out on all the 43 licensed commercial banks and 45 insurance firms in Kenya. The target respondents were the Human Resources Managers and the questionnaire was the data collection instrument that was used. Out of the 88 firms that were targeted, 54 responded, constituting a response rate of 61%. Hypothesis was tested using regression analysis. Descriptive statistics were computed for organizational data and the main characteristics of the study variables. Data was presented in form of tables. The findings revealed that employee empowerment does not moderate the influence of human capital on firm performance, but has a mediating effect. Organizations should therefore be keen on increasing 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. People have a fundamental need to contribute to the firm's success and see the tangible results of their work (Cameron, 2010). Empowerment largely depends on the knowledge and skills that employees possess because this influences the quality of decisions that they make. Upon building a high human capital base, such highly skilled workers should be empowered to make the decisions that they can handle.

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

1. INTRODUCTION

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

An empowered workforce that has the relevant knowledge, skills and competencies can produce exemplary organizational results. Empowering employees, through greater commitment to the organization’s goals, encourages employees to take more responsibility for their own performance and its improvement (Barry, 1993) and skills and talents inherent in the employees can be realized and put to work for the benefit of the organization (Ripley and Ripley, 1993) producing more satisfied customers (Hubrecht and Teare, 1993) and greater profits (Cotton, 1993). Contributions by empowered employees are believed to have a significant impact on business productivity, revenue and the organization's overall effectiveness.

Kenya’s development strategy is built on four pillars, where one of them is to invest in human capital. Strengthening the quality and exploiting the productive use of Kenya’s human capital must be a high policy priority (Thugge, Heller and Kiringai, 2008). The availability of a well developed human resource base is critical to the realization of Kenya’s Vision 2030. The much needed higher productivity in the process of realization of Vision 2030 depends on the quality of human capital and how they are utilized (Kimutai and Patrick, 2011). One of the problems that insurance firms and commercial banks in Kenya face is low human capital. A study done by Price Water House Coopers (2010) on Kenyan insurance firms found that there is a human capital challenge facing insurance firms, where many insurers are facing mounting skills shortages. Yet, investment in recruitment, training and career development often trails behind other financial sectors. According to the Central Bank of Kenya Bank Supervision Annual Report (2012) all the cadres of staff increased with the exception of supervisory level which reduced by 84, which poses a human capital challenge.

It has been demonstrated empirically that the human capital of a firm becomes a strategic asset when that knowledge is valuable and unique, thus generating greater competitiveness and ultimately more profit (Subramaniam and Youndt, 2005). Contributions by empowered employees are found to have a significant impact on business productivity, revenue and the organization's overall effectiveness (Cameron, 2010). Empowerment largely depends on the knowledge and skills that employees possess because this influences the quality of decisions that they make. One major challenge facing the financial services sector in Kenya is low human capital. There is a human capital challenge facing insurance firms where many insurers are facing mounting skills shortages (www.pwc.com). High labour turnover has also been cited as one of the predictions of failure of insurance firms in Kenya (Kibandi, 2006). The banking industry is being buffeted by a storm of trends and challenges. Customers perceive banking products and services as commodities; shareholders demand healthy growth and fat margins; employee turnover is a persistent problem; and skilled talent is in short supply (www.sap.com).

Awan and Sarfraz (2013) did a study on the impact of human capital on company performance and the mediating effect of employee satisfaction. The study found a strong positive relationship between human capital and firm performance, and further found that employee satisfaction mediated this relationship.

However the sample comprised of only three firms in the telecom sector in Pakistan, which was a small sample. Roca-Puig, Beltrán-Martín and Cipres (2011) did a study on the combined effect of human capital, temporary employment and organizational size on firm performance. The study considered the moderating role of temporary employment and organizational size on the relationship between human capital and firm performance. The study found that the positive effect of human capital on firm performance is greater in large firms with low temporary employment than in small firms with high temporary employment. The study findings revealed a weak positive correlation (r=0.221) between human capital and organizational size, which may be an indicator of organizational size being a less significant moderating variable. A study by Harris, McMahan and Wright (2012) on the impact of human capital and overlapping tenure on unit performance, considered the moderating role of overlapping tenure in the relationship between human capital and team performance. The study found that human capital has a positive influence on team performance, and that organizations with human resources that have higher levels of overlapping tenure may have higher levels of performance. However, the interaction between human capital and overlapping tenure was not significantly related to performance. A study by Baileya & Helfatb (2003) on External Management Succession, Human Capital and Firm Performance: An Integrative Analysis sought to find out whether differences between external successors in the transferability of their human capital affect firm performance, and if so, how? The study findings revealed that external successors with less transferable (related-industry) skills have greater variance of firm performance.

The above studies focused on the moderating role of various variables that yielded mixed results, which may be an indicator of use of variables that may not have a great influence on the relationship between human capital and firm performance. It is evident from the literature reviewed that employee empowerment may increase motivation and commitment to the organization and encourage employees to work harder increasing overall firm performance. Some of the studies also utilized small samples, while the current study used a large sample which comprised all the insurance firms and commercial banks in Kenya. This study therefore was aimed at filling up the identified gaps in previous studies and attempted to answer the research question, does employee empowerment moderate the influence of human capital on the performance of insurance firms and commercial banks in Kenya?

This study will be resourceful to the policy makers in insurance firms and commercial banks, because it will question the existing policies and their effectiveness in enhancing employee empowerment, and where need be, a review of policies may be considered. Insight will be gained on the importance of employee empowerment and participation, and the role that empowered employees who have the necessary human capital can play in quality decision making. The degree of employee empowerment will be examined with a view of enhancing an empowerment culture. The Human Resource Departments of organizations will design innovative employee empowerment programs that will facilitate the increase of employee empowerment.

2. LITERATURE REVIEW

Theoretical Foundation

The resource-based theory emphasizes the critical importance of internal resources for sustainable competitive advantage. This perspective argues that firm performance is a function of how well managers build their organizations around resources that are valuable, rare, inimitable, and lack substitutes (Barney, 1991). Intangible resources like human capital are more likely to produce a competitive advantage because they are rare and socially complex, and therefore difficult to imitate (Hatch and Dyer, 2004; Hitt *et al.*, 2001). In particular, specific human capital represents an inimitable asset in terms of knowledge and skills that are only of use to an individual company (Lepak and Snell, 2002; Rauch *et al.*, 2005). The theory identifies the firm's potential key resources and evaluates whether these resources fulfill the following criteria: Valuable – A resource must enable a firm to employ a value-creating strategy, by either outperforming its competitors or reduce its own weaknesses; Rare – To be of value, a resource must be rare by definition. In a perfectly competitive strategic factor market for a resource, the price of the resource will be a reflection of the expected discounted future above-average returns; In-imitable – If a valuable resource is controlled by only one firm it could be a source of a competitive advantage. This advantage could be sustainable if competitors are not able to duplicate this strategic asset perfectly. An important underlying factor of inimitability is causal ambiguity, which occurs if the source from which a firm's competitive advantage stems is unknown (Peteraf, 1993). If the resource in question is knowledge-based or socially complex, causal ambiguity is more likely to occur as these types of resources are more likely to be idiosyncratic to the firm in which it resides (Mahoney and Pandian, 1992). Non-substitutable – Even if a resource is rare, potentially value-creating and imperfectly imitable, an equally important aspect is lack of substitutability. If competitors are able to counter the firm's value-creating strategy with a substitute, prices are driven down to the point that the price equals the discounted future rents, resulting in zero economic profits.

Human Capital

Human capital is defined as unit level knowledge, skills, and abilities used to produce a given set of outcomes (Hitt, Bierman, Shimizu, & Kochhar, 2001). Human capital refers to the collective knowledge, skills, and abilities of the individuals working in an organization (Snell and Dean, 1992). From an organizational perspective, human capital is the result of a firm's deliberate investment through the selective hiring of employees with high general skills (or formal education) plus a firm investment in training of more specific skills through "in-house" training activities (Lepak and Snell, 1999, 2002; Skaggs and Youndt, 2004). Firms can thus increase their human capital levels through human resource management practices related to employee selection and training. Organizations can use selection to increase their generic human capital, while focusing on training to develop firm-specific human capital (Groot and Van Den Brink, 2000; Skaggs and Youndt, 2004).Human capital generates value through investments in increasing individuals' knowledge, skills, talents and know-how (Roos *et al.*, 1997). One type of investment is education. Higher levels of education reflect greater investments in human capital (Bontis, 1998, 1999). An individual who is highly educated is more knowledgeable and performs better than others, and gets more opportunities to move upward (Hitt *et al.*, 2001; Wayne *et al.*, 1999).

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

Employee Empowerment

Tulloch (1993) defined empowerment as to "authorize, give power to". Legge (1995) argued that empowerment should be seen in terms of a redistributive model whereby power equalization is promoted for trust and collaboration. Hales and Klidas (1998) defined empowerment as sharing knowledge, information and power with subordinates. The notion of empowerment involves the workforce being provided with a greater degree of flexibility and more freedom to make decisions relating to work. This contrasts markedly with traditional management techniques that have emphasized control, hierarchy and rigidity (Greasley, Bryman, Dainty, Price, Soetanto and King, 2005).

Conger and Kanungo (1988) focused on power as the central point of empowerment, either to strengthen this belief or to weaken belief in personal powerlessness. Power is often redistributed by transferring control so that employees have the authority to make and implement their own decisions. The authors make a distinction between the relational and motivational meanings of empowerment. The relational aspect examines the relationship between managers and workers both before and after empowerment. The motivational dimension suggests a process through which initiative will need to pass for employees to feel motivated. Pastor (1996, p. 5) stated that: “it is part of a process or an evolution – an evolution that goes on whenever you have two or more people in a relationship, personally or professionally”. Lee and Koh (2001) refined this description further by looking at the intersubjective nature of the subordinate and supervisor. They stated that empowerment is the combination of the psychological state of a subordinate, which is influenced by the empowering behaviours of supervisors.

According to Conger and Kanungo (1988) empowerment is an intrinsic construct meaning “enabling”, rather than a simple empowerment of subordinates with power and resources. Thomas and Velthouse (1990) further proposed the construct of psychological empowerment, which consists of the following four dimensions that have been widely accepted by scholars: meaning, competence, self-determination and impact. Meaning refers to an individual’s perception of the goals, objectives, and values of the work based on that person’s own value systems and standards. Competence or self-efficacy refers to an individual’s perception of his or her ability to complete the work. Self-determination refers to an individual’s ability to control the work. Impact refers to the extent to which an individual can affect the results of an organization in which he or she is employed in terms of strategies, administration, management, and operations. The four dimensions of psychological empowerment reflect positive positioning of individuals about their work roles (Spreitzer, 2007). Employees who are empowered will not wait passively for instructions but, rather, will actively change and affect their work environment, leading to greater efficiency (Sigler & Pearson, 2000).

The concept of employee participation has been a focus for research and practice for many years. It has taken many different forms, evolving through the employee involvement and participative decision-making concepts into the contemporary empowerment perspective. Entrepreneurs, managers and researchers in the field of management regard the employee as the major resource bringing competitive advantage to establishments, and they are of the opinion that the involvement and empowerment of employees is key to the success of establishments (Siegall and Gardner, 2000). When the nature of empowerment is examined, it is observed that empowerment does yield beneficial outcomes. When the constituents of employee empowerment are examined, it is stressed that the construct will yield beneficial results for both employees and employers (Baruch, 1998). Studies conducted on employee empowerment reveal that it gives rise to organizational commitment (Han *et al.*, 2009), motivation (Janssen *et al.*, 1997), and customer satisfaction (Chebat and Kollias, 2000).

Firm Performance

Firm performance is defined as “the economic outcomes resulting from the interplay among an organization’s attributes, actions and environment” (Combs et al., 2005, p. 261).Lynn and Cox (1997) observe that improvement in individual, group, or organizational performance cannot occur unless there is some way of getting performance feedback. Feedback is having the outcomes of work communicated to the employee, work group, or company. For the organization or its work unit's performance measurement is the link between decisions and organizational goals. Before you can improve something, you have to be able to measure it, which implies that what you want to improve can somehow be quantified. Additionally, it has also been said that improvement in performance can result just from measuring it. Whether or not this is true, measurement is the first step in improvement. But while measuring is the process of quantification, its effect is to stimulate positive action. Managers should be aware that almost all measures have negative consequences if they are used incorrectly or in the wrong situation. Managers have to study the environmental conditions and analyze these potential negative consequences before adopting performance measures.

Kaplan and Norton (1992) contend that the balanced scorecard approach operates from the perspective that more than financial data is needed to measure firm performance and that non financial data should be included to adequately assess firm performance. They suggested that any performance measurement framework should have four perspectives: financial perspective; internal business perspective; customer perspective; innovation and learning perspective. Financial perspective: Return of Capital Employed, Economic value added, Sales growth, Cash flow; Customer perspective: Customer satisfaction, retention, acquisition, profitability, market share; Internal business process perspective - Includes measurements along the internal value chain for: Innovation - measures of how well the company identifies the customers' future needs; Operations - measures of quality, cycle time, and costs; Post sales service - measures for warranty, repair and treatment of defects and returns; Learning and growth perspective - Includes measurements for: People - employee retention, training, skills, morale; Systems - measure of availability of critical real time information needed for front line employees.

Human Capital, Employee Empowerment and Firm performance

Barney and Wright (1998)argued that only human capital with valuable and unique knowledge is a strategic asset. Hence, as recommended by Boxall (1996), companies should select and retain employees of this type, as they generate what the author terms "human capital advantage". It has been demonstrated empirically that the human capital of an organization becomes a strategic asset of the company when that knowledge is valuable and unique, thus generating greater competitiveness and ultimately more profit (Subramaniam and Youndt, 2005). Collins and Smith (2006) stated that employees with valuable and unique knowledge (knowledge workers) do more to promote the process of organizational learning. Valuable and unique human capital is more likely to explore new ways of working and to convert them into new organizational routines. Furthermore, this type of human capital, and no other, is capable of generating the internal conditions that promote learning, as it is important that knowledge adds value and should be embedded in the organization so that distinctive competences may be developed (López-Cabrales, Real and Valle, 2011).

The notion of empowerment involves the workforce being provided with a greater degree of flexibility and more freedom to make decisions relating to work (Greasley, Bryman, Price, Soetanto and King, 2005). Employee empowerment has widely been recognized as an essential contributor to organizational success with many authors observing a direct relationship between the level of employee empowerment and employee performance (Spreitzer, 1995; Kirkman and Rosen, 1999), employee job satisfaction (Ugboro and Obeng, 2000; Laschinger *et al.*, 2001), and employee commitment (Ugboro and Obeng, 2000). Empowering employees enables organizations to be more flexible and responsive and can lead to improvements in both individual and organizational performance (Dainty *et al.*, 2002; Ozaralli, 2003; Bordin *et al.*, 2007). Similarly, it is maintained that employee empowerment is critical to organizational innovativeness (Gomez and Rosen, 2001) and effectiveness (Morrell and Wilkinson, 2002; Bartram and Casimir, 2007).

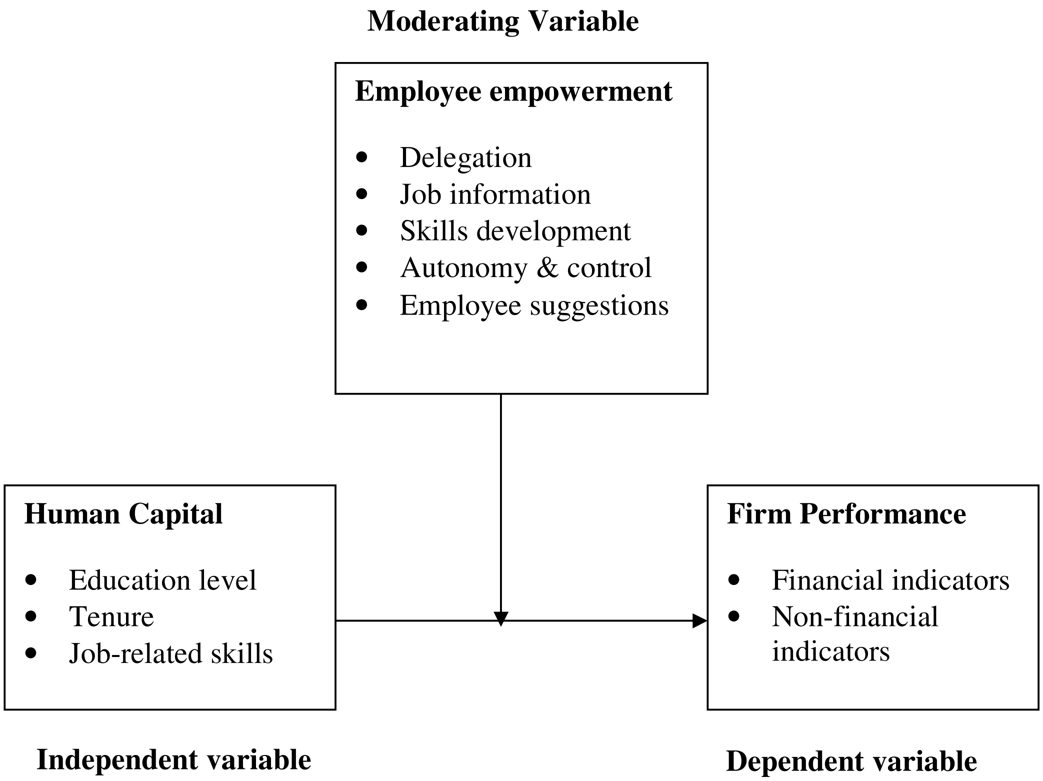
Employee empowerment brings decision-makers and employees closer, hence shortening the duration of tasks. Any type of managerial style that can pave the way for developing the feeling of self-efficacy will yield employee empowerment. Empowered individuals will have a more active role in the organization, will take on initiatives, and their participation in the activities of the organization will be enhanced. Entrepreneurs, managers and researchers in the field of management regard the employee as the major resource bringing competitive advantage to establishments, and they are of the opinion that the involvement and empowerment of employees is key to the success of establishments (Siegall and Gardner, 2000).

When the nature of empowerment is examined, it is observed that empowerment does yield beneficial outcomes. When the constituents of employee empowerment are examined, it is stressed that the construct will yield beneficial results for both employees and employers (Baruch, 1998). Studies conducted on employee empowerment reveal that it gives rise to organizational commitment (Han *et al.*, 2009; Kim, 2002; Sigler and Pearson, 2000; Spreitzer and Mishra, 2002), motivation (Janssen *et al.*, 1997), performance (Sigler and Pearson, 2000) and customer satisfaction (Chebat and Kollias, 2000).Diab (2011) notes that a key point that is sometimes forgotten is that for empowerment to truly work and for trust to remain extended there has to be constant stream of positive results. If trust is extended to employees and they are empowered to make decisions then the result turns out to negatively impact the business, one would be less likely to continue in this empowerment and trust in those employees would be shaken.

Employee empowerment is more relevant in today's competitive environment where knowledge workers are more prevalent (Jarrar and Zairi, 2002) and organizations are moving towards decentralized, organic type organizational structures (Houghton and Yoho, 2005). Every organization has a pool of knowledge from past experiences, individual know-how and work processes. If an organization wants to create an empowerment structure it must be able to set up an architecture that facilitates its knowledge concerning the skills and competences of its workforce. The organization must know what it wants to empower. On the other hand employees must know what skills and competency profiles are defined for the various tasks within the company and must be able to perform some kind of matching that will support them in choosing the right development (Houtzagers, 1999).

Giving employees a say in company direction is important as it saves employers money and builds a sense of ownership among workers. Contributions by engaged employees are believed to have a significant impact on business productivity, revenue and the organization's overall effectiveness. People have a fundamental need to contribute to the firm's success and see the tangible results of their work. Success largely depends on empowering employees as they take larger roles in shaping the firm's culture. Employeeinvolvement programs delegate authority to employees across all levels of a firm by involving them in strategic initiatives. Employees are encouraged to generate ideas, create beneficial initiatives and put plans into action. Success largely depends on empowering employees as they take a stepped-up role in shaping the firm's culture. Delegating authority spreads out the decision-making process, encourages input from people closest to the problems, and fosters a collaborative environment. When leaders involve everyone in moving the organization forward, it builds synergy and commitment at all levels. By fostering a culture of involvement, firms can engage employees at all levels in the business of achieving quality service, increased productivity, and realized purpose (Cameron, 2010).

Figure 1: Conceptual Model



An empowered workforce is provided with a greater degree of flexibility and more freedom to make decisions relating to work (Greasley, Bryman, Dainty, Price, Soetanto and King, 2005). Competence is a critical dimension of empowerment. Empowered employees that have the relevant knowledge and skills have an opportunity to contribute to decision making, and could enhance the quality of decisions. High skills in the workforce are a requirement for empowerment, and benefit from delayering the organization (Appelbaum *et al*., 2000). Employee participation in decision making increases motivation and commitment to the organization and encourages employees to work harder (Pfeffer, 1998). The amount of knowledge, skills and competencies possessed by the workforce, and their ability to contribute to strategic decisions determine firm performance. This leads to the hypothesis that:

H1: The influence of human capital on firm performance is moderated by Employee empowerment.

3. RESEARCH METHODOLOGY

The research design that was used is descriptive cross-sectional design. The target population of this study was all the 45 insurance companies and 43 commercial banks in Kenya, where a census survey was carried out on all the 88 firms. The study made use of both primary and secondary data. The secondary data was obtained through a review of financial statements where the Return on Assets (ROA) and Return on Equity (ROE) were obtained for a three year period as financial indicators of firm performance, after which an average score was computed. Primary data was collected on human capital, employee empowerment and qualitative indicators of firm performance using a questionnaire. The first section sought to obtain organization data; Section two covered human capital; Section three addressed employee empowerment; Section four comprised questions on the qualitative indicators of firm performance. The questionnaire included both open-ended and likert type questions.

The organization was the unit of analysis and the target respondents were the Human Resource Managers and Marketing Managers of the commercial banks and insurance firms. The Human Resource Managers responded to the sections on the organization data, human capital and

employee empowerment, while the Marketing Managers responded to the section on the non-financial indicators of firm performance. Regression analysis was used to establish the nature and magnitude of the relationships between the variables of the study and to test the hypothesized relationship. Descriptive statistics such as frequencies and percentages were computed for organizational data and multiple choice questions in order to describe the main characteristics of the variables of interest in the study. Mean scores were computed for likert type of questions. Data was presented in form of tables.

4. DATA ANALYSIS AND RESULTS

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

H1a: The influence of human capital on return on assets is moderated by employee empowerment

$Y= \beta_0+\beta_1X+\beta_2Z+\beta_3XZ$

Where X= the independent variable (human capital)

β = Coefficient of variation

Z= moderator (Employee Empowerment)

XZ= product of the standardized scores for the independent variable (human capital) and the moderator (employee empowerment)

Y= Return on Assets

The hypothesis would be supported if the effect of the interaction between human capital and employee empowerment (XZ) on Return on Assets is statistically significant. The regression analysis based on the standardized scores for the independent and moderating variables yielded the results presented in table 4.1. The results show that the influence of human capital on Return on Assets is not affected by employee empowerment (R Square = 0.007, F = 0.081, $p > 0.05$). The β depicting the coefficient for the interaction (XZ) was also not significant ($\beta = 0.001$, t= 0.131, p> 0.05), therefore not supporting the condition for moderation which states that the effect of the interaction between human capital and employee empowerment (XZ) on firm performance should be statistically significant. The hypothesis that the influence of human capital on firm performance is moderated by employee empowerment was therefore not confirmed.

H1b: The influence of human capital on return on equity is moderated by employee empowerment

Hypothesis 1b sought to establish whether the influence of human capital on return on equity is moderated by employee empowerment. The Baron and Kenny approach was also employed in testing this hypothesis, guided by the equation:

$Y= \beta_0+\beta_1X+\beta_2Z+\beta_3XZ$

Where X= the independent variable (human capital)

Z= moderator (Employee Empowerment)

XZ= product of the standardized scores for the independent variable and the moderator

Y= return on equity

The outcome of the regression analysis was as presented in table 4.2.

The results presented in table 4.2 indicate that the influence of human capital on return on equity is not affected employee empowerment (R Square = 0.009, F = 0.098, $p > 0.05$). The β depicting the coefficient for the interaction (XZ) was also not significant (β = 0.009, t= 0.216, p> 0.05), therefore not supporting the condition for moderation which states that the effect of the interaction between human capital and social capital (XZ) on return on equity should be statistically significant. The hypothesis that the influence of human capital on return on equity is moderated by employee empowerment was therefore not confirmed.

H1c: The influence of human capital on Non-financial Firm Performance is moderated by employee empowerment

Hypothesis 1c sought to establish whether the influence of human capital on non-financial firm performance was moderated by employee empowerment. This hypothesis was tested using the following regression equation:

$$Y= \beta_0+\beta_1X+\beta_2Z+\beta_3XZ$$

Where X= the independent variable (human capital)

β = Coefficient of variation

Z= moderator (Employee Empowerment)

XZ= product of the standardized scores for the independent variable (human capital) and the moderator (employee empowerment)

Y= Non-financial firm performance

The hypothesis would be supported if the effect of the interaction between human capital and employee empowerment (XZ) on firm performance is statistically significant. The regression analysis based on the standardized scores for the independent and moderating variables yielded the results presented in table 4.3.

The results as presented in table 4.3 show that the influence of human capital on non-financial firm performance is significantly affected by employee empowerment (R Square = 0.310, F = 3.742, $p < 0.05$). The β depicting the coefficient for the interaction (XZ) was however not significant (β = -.007, t= -0.351, p> 0.05), therefore not supporting the condition for moderation which states that the effect of the interaction between human capital and employee empowerment (XZ) on firm performance should be statistically significant. The hypothesis that the influence of human capital on non-financial firm performance is moderated by employee empowerment was therefore not confirmed. The researcher further tested for mediation on an exploratory basis and the results were as presented in table 4.4, 4.5 and 4.6.

The results presented in table 4.4 indicate that the influence of human capital on firm performance is significant (R Square= 0.153, F= 6.494, p<0.05) and the beta is also statistically significant (β= 0.473, t= 2.548, p<0.05) thus satisfying the first condition in testing for mediation, which states that the independent variable should be significantly related to the dependent variable in the absence of the mediating variable. The results presented in table 4.5 show that the second condition stating that the independent variable should be significantly related to the mediator variable was also satisfied because human capital indeed significantly influenced employee empowerment (R Square= 0.363, F= 20.473, p<0.05), and the beta was also significant (β= 0.711, t= 4.525, p<0.05). Table 4.6 presents the results for the third and fourth conditions for mediation. In the third step employee empowerment influenced firm performance significantly (R Square= 0.246, F= 10.130, p<0.05) and the beta was also significant (β= 0.505, t= 3.183, p<0.05) thus satisfying the third condition, which states that the mediator variable should be significantly related to the dependent variable. The fourth condition stating that when controlling for the effects of the mediating variable on the dependent variable, the effect of the independent variable on the dependent variable should be insignificant in the presence of the mediating variable was also satisfied, because the influence of human capital on firm performance in the presence of employee empowerment was not significant (R Square= 0.261, F= 5.303, p>0.05) and the beta was also not significant (β= 0.176, t= 0.778, p>0.05).

5. Discussion and Conclusions

The study sought to establish whether the influence of human capital on firm performance was moderated by employee empowerment. The results yielded an insignificant interaction between human capital, employee empowerment and firm performance considering non-financial measures in spite of a statistically significant model, while considering financial measures, the model was statistically insignificant. The hypothesis that the influence of human capital on firm performance is moderated by employee empowerment was therefore not confirmed. There is minimal literature that attempts to link human capital, employee empowerment and firm performance. However studies have been done linking employee empowerment to firm performance.

Empowering employees enables organizations to be more flexible and responsive (Mathieu *et al.*, 2006) and can lead to improvements in both individual and organizational performance (Conger and Kanungo, 1988; Dainty *et al.*, 2002; Ozaralli, 2003; Bordin *et al.*, 2007). Cameron (2010) contends that employee involvement can be done by identifying several strategic firm initiatives and delegating authority to employees across all levels of the firm through task forces to develop those initiatives. This process encourages employees to generate ideas, put plans into action, and create further beneficial initiatives for the firm. The idea of getting employees involved in the firm's business, plus technical training, is what drives a high billing rate and ultimately profitability. When leaders involve everyone in moving the organization forward, it builds synergy and commitment at all levels. By fostering a culture of involvement, firms can engage employees at all levels in the business of achieving quality service, increased productivity, and realized purpose.

The researcher further tested for mediation exploring the possibility of a mediating effect of employee empowerment in the influence of human capital on firm performance. The Baron and Kenny approach in testing for mediation was employed and the results provided sufficient statistical evidence to signify a mediation relationship. This implies that human capital, employee empowerment and firm performance do not have a direct relationship, and that the interaction of human capital and employee empowerment increases the influence on firm performance. Employee empowerment should happen where employees have the necessary knowledge, skills and competencies so that they can contribute to increased firm performance. These findings are in line with existing literature that posits that employee empowerment may produce exemplary results where human capital is high. High skills in the workforce are a requirement for empowerment, and benefit from delayering the organization (Appelbaum et al., 2000).

Every organization has a pool of knowledge from past experiences, individual know-how and work processes. If an organization wants to create an empowerment structure it must be able to set up an architecture that facilitates its knowledge concerning the skills and competences of its workforce. The organization must know what it wants to empower. On the other hand employees must know what skills and competency profiles are defined for the various tasks within the company and must be able to perform some kind of matching that will support them in choosing the right development (Houtzagers, 1999). It is assumed that workers have the opportunity to contribute to organizational success and as they are closer to the work situation they may be able to suggest improvements which management would be unable to by virtue of their position in the hierarchy. Rather than trying to control employees, they should be given discretion to provide better service and achieve a higher standard of work (Wilkinson, 1998). In instances where employees do not possess the basic competence to make a decision or perform an activity, empowerment goes out of the window. For empowerment and trust to be extended there has to be a basic competence on behalf of the person who is actually empowering others to make decisions and take actions (Diab, 2011).

Recommendations

The research findings revealed that employee empowerment does not moderate but mediates the influence of human capital on firm performance. Organizations should therefore be keen on increasing 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. People have a fundamental need to contribute to the firm's success and see the tangible results of their work (Cameron, 2010). Empowerment largely depends on the knowledge and skills that employees possess because this influences the quality of decisions that they make. Upon building a high human capital base, such highly skilled workers should be empowered to make the decisions that they can handle.

Table 4.1: Regression output for the test for moderating effect of Employee Empowerment on the influence of Human Capital on Return on Assets

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.084	.007	-.080	.0513796

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.001	3	.000	.081	.970
	Residual	.090	34	.003		
	Total	.090	37			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.009	.082		-.107	.916
	human capital	-.005	.112	-.010	-.048	.962
	Employee empowerment	.043	.098	.097	.436	.666
	XZ	.001	.010	.025	.131	.896

Predictors: (Constant), XZ (product of Zscore human capital and Zscore employee empowerment), human capital, employee empowerment

Dependent Variable: return on assets

Table 4.2: Regression results for the moderating effect of Employee Empowerment on the influence of Human Capital on Return on Equity

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.092	.009	-.079	.2175169

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.014	3	.005	.098	.961
	Residual	1.609	34	.047		
	Total	1.623	37			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.241	.348		.693	.493
	human capital	-.067	.475	-.030	-.141	.888
	Employee empowerment	-.082	.415	-.044	-.198	.844
	XZ	.009	.043	.041	.216	.830

Predictors: (Constant), XZ (product of Zscore human capital and Zscore employee empowerment), human capital, employee empowerment
Dependent Variable: return on equity

Table 4.3: Regression output for the test for moderating effect of Employee Empowerment on the influence of Human Capital on Non-financial Firm Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.557	.310	.227	.094075

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.099	3	.033	3.742	.024
	Residual	.221	25	.009		
	Total	.321	28			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.425	.177		2.404	.024
	human capital	.057	.249	.048	.227	.822
	Social capital	.460	.214	.491	2.151	.041
	XZ	-.007	.021	-.066	-.351	.728

Predictors: (Constant), product of Zscore human capital and Zscore employee empowerment, human capital , social capital
Dependent Variable: non financial performance

Table 4.4: Mediating effect of employee empowerment on human capital and firm performance (First step)

Model Summary

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

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.067	1	.067	6.494	.015(a)
	Residual	.370	36	.010		
	Total	.436	37			

Coefficients

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

Predictors: (Constant), human capital
Dependent Variable: non financial performance

Table 4.5: Mediating effect of employee empowerment on human capital and firm performance (Second step)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.602	.363	.345	.090899

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.169	1	.169	20.473	.000
	Residual	.297	36	.008		
	Total	.467	37			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.243	.122		1.996	.054
	human capital	.711	.157	.602	4.525	.000

Predictors: (Constant), human capital
Dependent Variable: employee empowerment

Table 4.6: Mediating effect of employee empowerment on human capital and firm performance (Third and fourth step)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	Df1	df2	Sig. F Change
1	.496	.246	.222	.096364	.246	10.130	1	31	.003
2	.511	.261	.212	.096985	.015	.605	1	30	.443

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.094	1	.094	10.130	.003
	Residual	.288	31	.009		
	Total	.382	32			
2	Regression	.100	2	.050	5.303	.011(b)
	Residual	.282	30	.009		
	Total	.382	32			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.423	.129		3.283	.003
	employee empowerment	.505	.159	.496	3.183	.003
2	(Constant)	.351	.160		2.201	.036
	employee empowerment	.423	.191	.416	2.219	.034
	human capital	.176	.226	.146	.778	.443

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

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