

Does Firm Innovativeness Mediate the Relationship between Human Capital and Financial Performance of Insurance Firms in Kenya?

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ABSTRACT

This study investigates the effect of firm innovativeness in mediating the human capital-financial performance link. The research is founded on human capital theory. The data was drawn from employees in all the 49 insurance firms in Kenya. The usable sample for the study comprised 372 employees. Data was gathered via a survey questionnaire and examined using structural equation modelling. The outcomes show that there is an affirmative and substantial association amid human capital and financial performance. Additionally, it has been demonstrated that a company's innovativeness helps to moderate the affiliation between financial performance and human capital.

Keywords: Financial Performance, Firm Innovativeness, Human Capital, Insurance Firms.

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I. INTRODUCTION

Previous research has accentuated the prominence of human capital in company outcomes, which includes performance and sustainability (Lynham & Cunningham, 2006; Nafukho *et al.*, 2004). Dimov and Shepherd (2005) ascertain that the knowledge and skills that people offer to a business are referred to as human capital and can be obtained by training or individual experience/skills that add to the implicit and explicit knowledge of the organization. Human capital enriches firm performance by providing significant value for companies and providing them with sustainable advantage (Parham & Heling, 2015). Despite past research on how human capital affects a firm's performance, and the company innovation effect on business performance (Forsman, 2011) corporate innovation's effects on the connection between performance of a corporation and human capital has received insufficient attention. As a result, this paper investigates the role of company innovativeness in the affiliation between performance of the corporate as a moderator and human capital.

Innovation is defined by Knowles *et al.* (2008) as the adoption or development of a meaningfully enhanced good or service, procedure, a novel marketing strategy, or a novel managerial technique in commercial practices, organizational workplace, or external affairs. Innovation is then used to introduce new products, processes, and business systems. Firm performance and sustainability rely heavily on innovation (Alipour, 2012; Cortez *et al.*, 2015; Cegarra-Navarro *et al.*, 2016). Previous research has indicated that organizations that innovate outperform their non-innovative counterparts in terms of economic and financial performance. In this regard, firms that innovate are likely to be more

adaptive to the changing needs of customers (Johansson *et al.*, 2001), profitable (Bigliardi, 2013) and competitive (Gallego-Álvarez *et al.*, 2011). Indeed, study has shown the importance of scholarly capital as a component of a corporation's ability to innovate (Tarus & Sitienei, 2015) since it influences firm performance. When a corporation has greater intellectual capital, it performs better in terms of innovation. This is because implementation of innovation requires capital changes in the organization. Thus, firms that seek the right culture structure, systems and processes increase their innovative capabilities (Moel & Boly, 2006). A corporation with higher intellectual capital would have greater inventive capability to improve its new product development performance.

Indeed, an organization's investment to human capital may tremendously benefit the company and the individuals who work for it. According to Awan and Sarfraz (2013), it aids in the growth of individuals to become more industrious, allowing the company to function better. Human capital is a key basis of financial success for a corporation, thus investing in human capital workforce may boost workers innovation as well as financial returns (Hitt *et al.*, 2001; Pfeffer, 1998). Assisting individuals in developing knowledge, competency, and skills strengthens the organization's human capital. Individuals are more qualified to accomplish their duties, which benefit the organization in general (Cunningham, 2002). According to the resource-based approach by Barney (1991), creativity is determined by how successfully managers construct their companies nearby resources that are treasured, scarce, unique, and cannot be replaced. Because human capital as a resource meets these requirements, the business should look after and safeguard these assets, as doing so can boost firm innovation (Crook *et al.*, 2008), resulting in improved performance.

Despite the importance of firm innovation, few experiential research has been piloted to scrutinize the link amid innovation and human capital. Despite various studies having been done on the affiliation amid firm innovation and human capital (Saleim *et al.*, 2007; Wynekoop & Walz, 2000), while other studies looking at the connection amid firm performance and firm innovation (Nybakk & Jensen, 2012; Damapour & Evan, 1984, Thornhill, 2006; Gunday *et al.*, 2011), the importance of firm innovation playing a mediating role amid human capital and performance of the firm has been largely ignored by scholars. As a result, additional research is needed to scrutinize the link amongst innovation of the firm, human capital, as well as company performance, so that the significance of the affiliation amid human capital and performance of the business and company innovation may be realized.

A. The Kenyan Context

Kenya is ranked 78th out of 130 countries on the Global Human Capital Index (GHCI) (GHCI, 2019). The research calculated the ratings for different nations in terms of human capital using characteristics like capability, application, development, and expertise. The excellent education system of Kenya and robust average experienced employment division were responsible for the high ranking, both of which are critical markers of prospective workforce investment. Kenyan insurance companies rely on human capital assets including skills, and knowledge, in addition to experiences to increase performance and acquire a long-lasting competitive advantage (Munjuri *et al.*, 2015). Kenyan insurance companies work to manage human capital by providing proper training and developing their employees' knowledge and abilities. This enables the companies to use the information and take action that will lead to effective performance.

In the current economic climate, it is widely acknowledged that the innovation capacity of a company is highly dependent on the acquaintance and intellectual resources it has access to as well as how effectively it can apply those resources. According to Mention (2012), this viewpoint views innovation as a rigorous knowledge management methodology. Kenya was placed 78th overall in the Global Innovation Index (GII) in 2018, and third highest in Africa. This was ascribed, among other things, to the transfer of creative services and innovation links. The introduction of mobile phone financial services is one of the most noteworthy advancements in Kenya's financial industry. Cruz *et al.* (2010) noted that mobile banking enables users of mobile devices to conduct financial transactions. The insurance industry is not an exception to these advancements, as it has prospects for new service delivery models in addition to increased probabilities for data gathering and fraud prevention that may improve risk identification as well as mitigation strategies, or "Insure-Tech".

Kenyans continue to purchase insurance coverage primarily in the categories of automobile, disaster, industry, and personal injuries (mostly group medical coverage), both at the corporate and individual levels. This exemplifies a negative outlook on personal insurance coverage in general. 2011's debt crisis resulted in a sizable decrease in overall premiums, an increase in claims as well as a drop in income

investments. Between 2010 and 2011, the gross straight finest income decreased from 25 percent to 18 percent (IRA, 2011). This enforced businesses, particularly those operating in non-life industries, to alter their approach to intensify performance and acquire a competitive advantage. In order to effectively adapt to the market and compete, insurance companies have concentrated on innovation and human capital development.

Despite the fact that competitive good inventions and human capital can describe development in Kenya's insurance region, there has been surprisingly little empirical research regarding how human capital affects company innovativeness of insurance businesses in Kenya. This situation has robbed insurance businesses of critical information about human capital and company innovations, occasionally resulting to contradictory associations in the rational capital-innovation link, necessitating the demand for this research. Additionally, there are few attempts to combine studies on financial performance, innovation, and human capital. This makes it necessary for this study to inspect the connection amid business innovation, human capital, and financial success in Kenyan insurance companies

B. Theory and Hypotheses Development

The study is constructed on the Human Capital Theory. This theory asserts that investing in human resources produces a competent work force with the potential to be more innovative and productive (McGuirk *et al.*, 2015). The information, skill, and experience one gains via education and training are referred to as human capital. Afiouni (2013) states that early in the 1990s, Theodore Schultz makes up the term "human capital" to emphasize the advantages of making significant national investments in education. The focus on human capital in businesses echoes the idea that importance of market is more dependent on intangible resources, especially human resources, than it is on tangible ones (Kulvisaechana, 2006).

According to Bontis and Serenko (2009), human capital encompasses everything related to people in a business, such as workers' skills, tacit knowledge, experience, as well as assertiveness. In addition, human capital may be viewed as a fundamental learning device for a company, impacting the capacity to obtain new information (Dae-Bong, 2009). Human capital is concerned with aptitudes, assertiveness, and mental alertness (Odhong *et al.*, 2014). According to Armstrong (2014) competence is the component of human capital that is mentioned the most frequently. Education levels, licenses or credentials for the work, knowledge of the job, and potential for the job, personality qualities, and talents connected to the job are six components of human capital recommended by Severine and Lila (2009). Malose and Boris (2012) defined HC as all-encompassing of employees' acquaintance, abilities, assertiveness, and intellectual alertness in the study context.

C. Human Capital and Firm Innovativeness

Human capital is the information, competence, and skill that one gains via training and education (Marimuthu *et al.*, 2009). Afiouni (2013) points out that Theodore Schultz developed the notion of Human Capital in the early 1990s to illustrate the advantages of national education investment. The focus on human capital in businesses reflects the idea that intangible resources, especially human ones, determine

market value rather than tangible ones (Kulvisaechana, 2006).

Human capital is a key source of financial success for a corporation (Hitt *et al.*, 2001), hence investing in workforce human capital may improve employee creativity (Pfeffer, 1998). Aiding folks gain acquaintance, expertise, and capability strengthens the organization's human capital. Individuals are more qualified to accomplish their duties, which benefits the organization in general (Cunningham, 2002). According to the resource-based hypothesis, business innovation is determined by how successfully managers construct their establishments around assets that are valued, scarce, unique, and without alternatives (Barney, 1991). Because human capital as a resource meets these requirements, the business should care for and safeguard these resources, as doing so can increase corporate innovation (Crook *et al.*, 2008).

Human capital is commonly considered as the primary expertise and knowledge source in the process of innovation in recent years. High-capacity human capital implies greater learning aptitude, which may boost organizations' innovative capability. Gavious and Russ (2009) points out that human capital management may be the only method for organizations to flourish in today's society. It provides businesses with a competitive edge in terms of abilities, knowledge, and work ethic. A key organizational component for gaining long-term competitive advantages is human capital management, and its effective management offers a huge potential for value creation inside the company, which directly affects innovation.

107 officials from the Software Industry Chamber of Egypt participated in a study with Seleim *et al.* (2007) on 38 software-based businesses, and the outcomes displayed that human capital considerably influences firm innovation. Training and cooperation resulted in remarkable results, which enhanced production in these organizations. According to a similar conclusion, there is a poor and insignificant correlation between employment years and the general performance of the firms. This finding runs counter to that of Wynekoop and Walz (2000), who found a link between prior employment and firm innovation.

The most important components of innovativeness in a company are competences, knowledge, creativity, problem-solving skills, and leadership. When the creativity and knowledge of the employees increase, more ideas patterns and combinations can be achieved resulting to innovative ideas in the firm.

Hypothesis 1: Human capital is positive and significantly related to firm innovativeness

D. Firm Innovativeness and Firm Performance

An increasingly imperative component of a company's long-term success is thought to be innovation (Cegarra-Navarro *et al.*, 2016). It is essential to all businesses' sustainable operations (Cortez *et al.*, 2015). Innovation has progressed over the former few decades as a consequence of fierce global rivalry, competitive marketplaces, and quickly evolving technology to become one of the most important elements for all businesses. It is well acknowledged that innovation has an influence on financial performance in particular (Bigliardi, 2013).

According to Woodward's (2009) argument, businesses innovate in order to improve performance. Comparing innovative and non-innovative organizations, innovative companies often record greater economic and financial results. Survival requires innovation, particularly in today's more globalized society. Innovation helps businesses adapt to diverse demand patterns that are always changing and makes advances to the many societal domains and activities possible. Innovation is therefore seen as the driver of development and effectiveness, ultimately leading to an increase in financial performance.

Nybakk and Jenssen (2012) looked into how Norwegian companies in the timber sector fared financially after implementing an innovation strategy. The authors made a financial case for the enactment of an innovation approach by expending the findings of a review of CEOs. It has also been suggested by several research that businesses profit from innovation. Tatar (2010) analyses the relation between innovation and financial performance on 43 Turkish manufacturing companies for 2003-2008 period by using balanced panel data analysis. Tatar investigates the effects of R&D expenditure as an indication of innovation on financial performance. According to the study's findings, innovation activities and financial performance are positively correlated. In this perspective, R&D spending as a sign of innovation has enhanced firm profitability (Tatar, 2010).

Gunday *et al.* (2011) considered the impacts of organizational process, product, and marketing inventions on the several magnitudes of corporate performance grounded on experimental research involving 184 manufacturing enterprises in Turkey. The outcomes show how innovations have an affirmative influence on business success in the industrial sectors (Gunday *et al.*, 2011). Çiçek and Onat, (2012), examine the effects of innovation and innovation-based activities performed focused on product, service and process are tried to find via data envelopment analysis. Five out of the nine firms that make up the Istanbul Stock Exchange's Technology and Information Index (Alcatel, Ericom, Link, Netas, and Aselsan) are discovered to be efficient (İçek and Onat, 2012).

From the literature it is clear that firms that innovate have high performance and that innovation is regarded as a key aspect in the success of a company (Cegarra-Navarro *et al.*, 2016). Organization's innovative capability is as a result of technological changes, response to increased risks and regulation which enhances individual performance and might transform into financial performance of firms.

Hypotheses 2: Firm innovativeness is positive and significantly related to firm performance

E. The Mediating Role of Firm Innovation on Human Capital-Firm Innovativeness Relationship

Anything pertaining to people within a firm is referred to as human capital. It takes into account things like an employee's implicit acquaintance, expertise, experience, and assertiveness. When it comes to a company's ability to learn new things, human capital can be viewed as a key learning device (Kang & Snell, 2009). In order to improve the attributes of a company's current products, human capital is crucial (Zerenler *et al.*, 2008). It is observed as a crucial learning device for an organization, affecting the aptitude to

pick up novel information. How much it donates to the formation of a competitive advantage determines the importance of human capital in enhancing business innovation (Chadwick, 2007). Organizations with specialized human capital resources frequently become more inventive. However, trainings are necessary for individuals to boost their degree of innovation, which will lead to increased financial performance.

Innovation is among the key pillars of corporate competitiveness. Businesses that innovate in their products and processes perform better than those that don't. Gaining a competitive edge is the main motivation for businesses to innovate. Corporate innovation is thought to be the key factor influencing a company's productivity. Damijan *et al.* (2012) established that although innovation affects organizational productivity, it is only significant for businesses with slow rates of productivity development. As a result, some antecedents in the connection amid productivity-driven development and innovation seem to be hidden. Comprehending innovation and its imperceptible backgrounds is indispensable for understanding innovation-driven economic progression, according to Rodrigues *et al.* (2015). Furthermore, compared to tangible assets, intangible assets have a stronger impact on performance and innovation (Bueno *et al.*, 2010). As a result, businesses with intellectual capital frequently exhibit greater innovation in the products and services they provide.

Today's businesses may find that managing their people capital is their only chance for success (Gavious & Russ, 2009). In terms of abilities, knowledge, and willingness to work, it gives businesses a competitive edge. Bueno *et al.* (2010) recognized the value of human capital when they asserted that it is one of the aspects that define an organization's attractiveness. They did this because they found that competencies, knowledge, creativity, problem-solving ability, leadership, and the ability to compromise personally are assets needed to meet the burdens of challenging surroundings and accomplish managerial objectives. Human capital organization is a crucial managerial component for achieving long-term competitive advantages. Its efficient management creates a huge potential for value creation within the business, which directly influences innovation (Bozbura *et al.*, 2007).

Although it makes intuitive sense that employee knowledge and skills contribute to an organization's capacity for innovation and that efforts to innovate may result in improved firm performance, the structural liaison amid human capital, innovation of firm, and firm performance is still uncommon in the literature. There is a need to research how corporate innovation arbitrates the link amid human capital and business performance.

Hypothesis 3. The impact of human capital on the financial success of insurance firms is mediated by corporate innovation.

II. METHODS AND DATA

The quantitative and explanatory character of the study aimed to examine the facilitating errand business innovation undertake on the link amid performance of the firm and human capital within the setting of Kenyan insurance

companies. The empirical nature of the study is supported by primary data gathered from 372 respondents who were the sample chosen from 5,273 employees population working for 49 licensed insurance companies in Kenya. To choose the respondents, a stratified sampling procedure was employed. A seven-point Likert scale with the values 1 through 7 was used in the study's structured questionnaires to gather data.

A. Measurements of Variables

Based on the balance score card method, financial performance was assessed using six items (Atkison *et al.*, 2007).

- a) Our organization's assets are worth more than its net income,
- b) The net income of our company has grown faster than existing funds,
- c) The investments of our company have continuously produced affirmative returns,
- d) The profits of our company have been greater equated to liabilities and assets,
- e) Our organization's share unresolved is more than the total income
- f) The returns of our organization are based on investment level which enables business growth.

In this study, innovation was considered as a mediator. Six elements make up the measures of corporate innovation employed by Subramaniam and Youndt (2005). Process, solution, and product/service innovation are some of the innovation dimensions. The respondents were examined to rate their companies' innovativeness against that of contestants on a seven-point Likert scale, with 1 being much worse than and 7 being significantly better. Six factors made up the human capital measurement. The human capital metrics were modified from earlier research (Bontis, 1998; Carmeli & Tishler, 2004; Jardon & Martos, 2009).

According to Bontis *et al.* (2000), employees' values, attitudes, aptitudes, and capacities that they may use to generate worth for the corporation are referred to as their human capital. Every human capital measurement item used a 7-point Likert scale, with 1 being the strongest disagreement and 7 being agreement (strongly agree). Included in them were the following statements:

- i. Our personnel are exceedingly skilled.
- ii. Our personnel are regarded as the superlative in our business.
- iii. Our personnel are bright and creative.
- iv. Our personnel create new concepts and acquaintance.
- v. Our personnel are authorities in their specific tasks and jobs.
- vi. This business's personnel are fairly compensated.

B. Data Analysis and Model Specification

To test hypothesis 1, 2, SEM was used, while mediating effect was tested using bootstrapping method which is an approach that is becoming more and more common to examine the indirect effect (Shrout & Bolger, 2002). Amos was used to perform bootstrapping method using SEM model. The advantage of using bootstrapping in operational equation prototypical is that the prominence of the mediation effect is probably overstated if the variables involve measurement errors. SEM can be used to address the measurement error issue (Robert & Kenny, 1986).

According to the study, the performance of the company is a dependent variable while human capital is an independent variable. Firm innovation serves as the mediating factor. The estimated model is described below:

$$\text{Financial Performance} = \beta_0 + \beta(\text{Firm innovation}) + \varepsilon \quad (1)$$

$$\text{Firm Innovation} = \beta_0 + \beta(\text{Human Capital}) + \varepsilon \quad (2)$$

$$\text{Financial Performance} = \beta_0 + \beta_1(\text{Human Capital}) + \beta_2(\text{Firm Innovation}) + \varepsilon \quad (3)$$

where,

(1) shows effect of firm innovation on Financial Performance, (2) shows effect of Human Capital on Financial Performance and (3) shows the mediating effect of Firm Innovation on the relationship between Human Capital and Financial Performance.

III. RESULTS

A. Descriptive results

Table I displays the correlations, means, and standard deviations. The results indicate that the financial performance has a mean of 5.44, S.D=0.89, innovation = 5.57, S.D=0.82 and human capital = 5.49, S.D=0.97. The correlation results indicate a positive and performance and human capital had a substantial association ($r = 0.639$, $p < 0.05$). Therefore, improved human capital will result in improved performance. Firm innovation and human capital share a strong affirmative connection ($r = 0.641$, $p < 0.05$). This suggests that advanced stages of innovation are correlated with advanced stages of human capital. According to the study, there is an important link amid performance insurance firms and firm innovation ($r = 0.764$, $p = 0.000$), suggesting that performance grows as a result of corporate innovation.

TABLE I: DESCRIPTIVE RESULTS

Variables	Firm Performance	Innovation	Human Capital	Mean	S.D.
Firm Performance	1	-	-	5.44	0.89
innovation	0.764**	1	-	5.57	0.82
Human Capital	0.639**	0.641**	1	5.49	0.97

** Correlation is significant at the 0.01 level (2-tailed).

b. List wise N=334

Source: Research Data, (2018)

B. Confirmatory Factor Analysis

We utilized Confirmatory Factor Analysis (CFA) with Amos 7.0 to back up a suggested measurement model. Since the five-factor model's chi-square was less than five times their degrees of freedom ($\chi^2/df = 306.05/132 = 2.32$), its Comparative Fit Index (CFI) was 90 ($p = 0.00$), which is acceptable by Bentler and Bonnett (1980), and its RMSEA was 0.041-smaller than the threshold 0.05 which demonstrated a good model fit (Browne & Cudeck, 1993). Therefore, it can be said that the resource measurements were reliable and internally consistent.

The mediating consequence of firm invention on financial performance and human capital was established using Structural Equation model (SEM). In Table II the standardized estimates showed the strength of the relationship between variables. In contrast to linear regression, which uses ordinary least square (OLS) methods, the parameters were estimated using maximum likelihood (ML) methods.

According to Hypothesis 1 ($\beta = 0.833$, $p < 0.05$), a significant and affirmative correlation exists amid corporate innovation and human capital. The first theory was confirmed. This suggests that businesses with advanced human capital-knowledge, skills, and experience-have a high probability of being innovative. Bantel and Jackson (1989) ascertain that because knowledge management is viewed as a key precursor to innovation, the idea behind human capital means individuals with expertise, know-how, and acquaintance help organizations function more innovatively.

Employees' inventiveness, aptitude, and abilities in a particular business are the primary foundation of novel knowledge and ideas in their firms, promoting the creation of innovation.

Hypothesis 2 proposed an affirmative and momentous connection between firm performance and firm innovativeness ($\beta = 0.707$ and $p < 0.05$). Hypothesis 2 was supported. This means that firms with high innovation degree in terms of product, processes, or market innovation tend to have high performance.

TABLE II: ESTIMATES OF MEDIATING EFFECT OF FIRM INNOVATION ON HUMAN CAPITAL AND FINANCIAL PERFORMANCE

Structural Path	Estimate	S.E	C.R	P
Direct Model	-	-	-	-
Financial Performance ← Human Capital	0.308	0.084	3.667	0.000
Indirect Effect	-	-	-	-
Innovation ← Human Capital	0.833	0.057	15.233	0.000
Financial	0.707	0.052	13.718	0.000
Performance ← Innovation	0.215	0.037	5.76	0.000
Financial				
Performance ← Innovation ← Human Capital				

Source: Research Data, (2018)

The third hypothesis proposed that corporate innovation would act as a mediator between the human capital impacts and the insurance firm's success financially. According to the study, three findings are realized when financial performance forecasters are both firm innovation and human capital as follows:

- Innovation of the firm has a noteworthy impact on performance financially ($\beta = 0.215$, $p < 0.01$)
- Human capital has a noteworthy impact on innovation of the firm ($\beta = 0.883$, $p < 0.01$)
- Both have a noteworthy impact on performance financially ($\beta = 0.308$, $p < 0.01$).

The third hypothesis was confirmed. This suggests that human capital significantly boosts business performance when there are high levels of firm innovation. According to the findings of the SEM analysis, business innovation complied with the requirements for mediating variables.

Fig. 1 shows a path map that summarizes the overall effects of the corporate invention on financial performance and human capital.

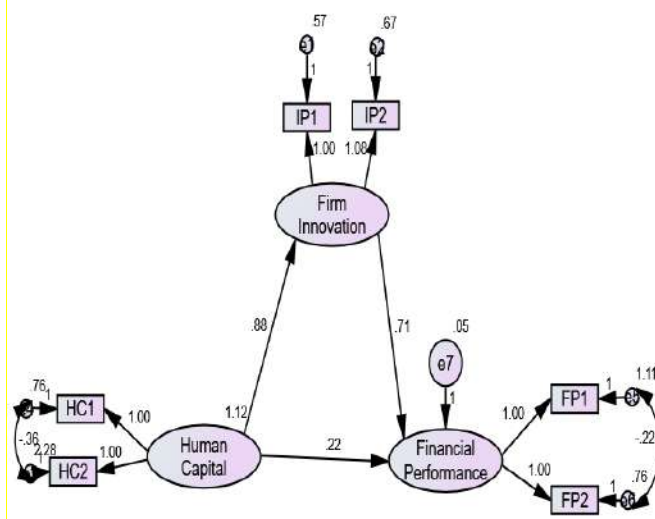


Fig. 1. SEM for mediating effect of firm innovation on human capital Financial Performance relationship.

I. DISCUSSION AND CONCLUSION

This study aimed to define whether the impact human capital has on financial performance is mediated through innovation. The goal was to provide a justification for the unsatisfactory experimental outcomes in the literature about the link between company innovation, financial performance, and human capital. According to the outcome of the study, financial performance and human capital relationship is somehow facilitated by company innovation.

According to Bantel and Jackson (1989), the findings provide compelling evidence for the preexisting theoretical claims that innovation is among the core benefits of human capital. Investing in human capital in various ways such as higher education, new expertise and experience tend to enhance employees' intellectual capacity, enhancing the innovation ability of employees in today's quickly changing environment. Thus, the human capital of a company may be viewed as the foundation of corporate innovation. In other words, investing in the workforce as the human capital of a company boosts the results of employee innovation and productivity. In the current knowledge-based economy tangible assets are no longer a practical means of attaining competitive advantage, making human capital increasingly vital. This demonstrates unequivocally that the focus is on incorporating an educated workforce since they will react quickly to variations in the external setting, leading to advance performance. On the other hand, businesses that are at the forefront of introducing new goods and services to the market are able to both draw in and keep their current clientele. These businesses can outshine their competitors even as it aggressively pursues innovation. Improved financial performance is the result. Innovation helps the process and innovation capital in some ways, improves sustenance and synchronization both outside and inside the company, and strengthens human capital, all of which lead to an improvement in financial performance.

B. Managerial and Policy Implication

According to the study's findings, insurance companies must make sure that their human resources are more knowledgeable about their core and emerging business

concerns if they want to stay ahead of the market. In order to make the company offer competitive products, management of insurance firms need also improve innovation techniques while employing their human capital. Evidently, businesses that innovate perform better financially. As a result, insurance companies must actively participate in the creation of new goods and services in order to expand into untapped areas and consolidate those that already exist. The company has to expand its product offerings since it will improve its financial performance. The management should create and implement innovations aimed at enhancing their financial performance.

C. Theoretical implication

This study shows that innovation has a partial mediating role in how well a corporation performs, and this finding offers fresh theoretical insights into the nature of innovation. Numerous studies have so far attested to the impact of innovation on business performance (Calantone *et al.*, 2002; De Clercq *et al.*, 2011). In the meantime, human capital has been commonly acknowledged as a crucial factor that determines the performance of a company (Carlucci *et al.*, 2004; Shih *et al.*, 2010). A small number of studies, however, focus on the intricate apparatuses connecting human capital, corporate innovation, and financial performance. By demonstrating that human capital would boost financial performance openly and indirectly contributing to the performance of the firm through innovation, our suggested model closes this breach by approving the partly facilitating part of innovation.

To enable comparability, additional research should concentrate on the role of innovation as a mediator in the association amid financial performance and human capital of other enterprises in Kenya. Likewise, it is essential to carry out additional study with multiple informants to examine the mediating impacts of remaining factors, for instance, strategic objectives, modest strategies, and sharing of information, on the link amid financial performance and human capital. This will allow respondents to speak specifically to their area of expertise, increasing the validity of the results.

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