ABSTRACT

In spite of a growing body of literature on firm performance, explaining why firms in the same industry and markets differ in their performance remains a fundamental question within strategic management field. Researchers have attributed differences in firm performance to resources owned by a firm. However, other researchers have argued that resources alone cannot be a source of competitive advantage. Therefore, the debate is still open. This study sought to contribute to knowledge and was premised on the view that resources influence performance both directly and indirectly through intervening effect of innovation and moderating effect of external environment. The study was anchored on the resource based theory, dynamic capabilities theory, knowledge based theory and the open systems theory. The main objective of the study was to establish the influence of external environment and innovation on the relationship between organizational resources and performance of insurance companies in Kenya. The study employed a positivist research paradigm and a cross-sectional survey design. Both primary and secondary data were collected from 46 insurance companies. Primary data was collected using a 5 point Likert type questionnaire and an interview guide. Secondary data on financial performance was collected from Association of Kenya Insurers annual report of 2011 and 2012. The study was guided by six specific objectives. To achieve these objectives, eight hypotheses were formulated and tested. Descriptive statistics, correlation and multiple regression analysis were used to analyze data. The findings established that both tangible and intangible resources had a statistically significant influence on non financial performance of insurance companies in Kenya. However, there were mixed findings as regards the individual influence of resources on various firm performance indicators. Intangible resources evidenced statistically not significant results individually but when combined, they had a statistically significant influence on non-financial performance. The study also revealed that intangible resources had a statistically significant positive moderate correlation with innovation. Tangible resources evidenced a weak positive correlation with innovation that was not statistically significant. Innovation had a statistically significant intervening influence on the relationship between resources and non-financial performance. There was a statistically not significant relationship between organizational resources, external environment and innovation. The external environment did not have a statistically significant moderating effect on the relationship between organizational resources and performance of insurance companies in Kenya. Finally, the joint effect of organizational resources, innovation and the external environment on non-financial performance was found to be greater than that of the individual variables. In the joint influence, innovation had the highest contribution followed by organizational resources. The contribution of the external environment was statistically not significant. The findings of this study lend partial support to previous studies. The results support the resource based view which proposes that resources are a source of a sustainable competitive advantage for the firm. The results of the study are significant for theory, policy and practice. The findings adds to the knowledge in the field of strategic management by establishing that organizational resources

influence firm performance both directly and indirectly through intervening effect of innovation. The moderating effect of the external environment was statistically not significant.