ORGANIZATIONAL STRATEGIC CAPABILITIES AND PERFORMANCE OF DIGITAL LENDING INSTITUTIONS IN KENYA

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ABSTRACT

The current business climate is characterized by stiff competition, globalization and rapid technological change. In the Kenyan market, digital lending institutions have faced increased competitive pressure arising from the growth of Saccos, mobile money systems and the mainstream commercial banks, which have resulted in low market share, poor profitability, lack of customer retention and high incidences of digital lending institutions failures. The study specifically aimed to establish the effect of information technology capability, market capitalizing agility, dynamic innovation capabilities, and knowledge management capability on performance of digital lending institutions in Kenya. This study was guided by these theories; resource based view theory, dynamic capabilities theory, knowledge based capability theory, and the people capability maturity model. This study used the descriptive cross-sectional research design. The unit of analysis in this study was the digital lending institutions, represented by the 22 institutions in Kenya. The unit of observation in this research was the 259 respondents including the head of the human resource department, operations department, finance department, research and development department, information technology department, head of customer care department, and sales and marketing department. Questionnaires were used to collect primary data. The quantitative data in this research was analyzed by descriptive statistics using IBM Statistical Package for the Social Sciences (SPSS) version 27. Descriptive statistics included mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns emerging from the data. In1 addition to measures of central tendencies, measures of dispersion and graphical representations were used to tabulate the information. In addition, the researcher conducted a Pearson's correlation and a multiple regression analysis so as to determine the relationship between variables. The analyzed data was then interpreted and presented in frequency tables. The study found that the institution supports employees in deploying new innovations within their work units and that the organization is able to use technology to efficiently produce more products than its competitors and at the lowest. Additionally, the study established that it was uncertain whether the management responds to competitive actions that threaten the firm and whether the firm is good at ascertaining customers' current needs and what products they will need in the future. The study also found that they regularly scan the market/business environment in order to identify new business opportunities. The research also found that the organizations do not give orientation towards the development, transfer and protection of strategic knowledge. The study concluded that dynamic innovation capabilities greatest effect on performance of digital lending institutions in Kenya, followed by information technology capability, then knowledge management capability while market capitalizing agility had the least effect on the performance of digital lending institutions in In Kenya.

Based on research findings, the government can formulate policy recommendations that support the development of organizational strategic capabilities in digital lending institutions. These policies can be designed to incentivize innovation, enhance financial literacy, and promote sustainable growth.

Key Words: Information Technology Capability, Market Capitalizing Agility, Dynamic Innovation Capabilities, Knowledge Management Capability, Digital1 Lending Institutions

INTRODUCTION

The concept of money lending has been an integral part of human economic interactions for centuries. Since the advent of trade, individuals and businesses have encountered financial disparities, where not everyone can readily afford their needs (Lee, Lee & Kim, 2019). This historical backdrop traces back to ancient civilizations, where farmers borrowed seeds and livestock, repaying the loans once their fields yielded a harvest or when new offspring arrived. Over time, the lending landscape evolved, leading to the establishment of traditional banks that provided loans with interest. The growth of the banking sector, however, brought about stringent regulations to safeguard the interests of both lenders and borrowers and to maintain equilibrium between risks and opportunities in lending (Bayram, Talay & Feridun, 2022).

In recent years, the paradigm of lending has shifted from traditional banks to digital lending institutions. A few years ago, accessing loans through the formal banking system often required physical presence and stringent criteria. The United States has developed a robust fintech ecosystem, witnessing the emergence of various digital lending institutions (Hua & Huang, 2021). For example, companies like Lending Club and Prosper pioneered peer-to-peer lending, allowing individuals and businesses to secure loans from individual investors. This success was attributable to favorable regulatory frameworks, access to capital, and advanced technological infrastructure. Similarly, the United Kingdom boasts a flourishing financial technology sector where digital lending institutions have gained traction due to their user-friendly platforms and innovative lending models. For instance, Funding Circle is a British peer-to-peer lending platform that facilitates loans for small businesses. It connects businesses seeking finance with investors looking to lend funds (Pierrakis, 2019).

In a regional perspective, Africa has seen significant growth in digital lending institutions, playing a pivotal role in promoting financial inclusion and access to credit. The continent has a substantial unbanked and underbanked population, with traditional banking services struggling to reach many regions. However, the widespread adoption of mobile phones and the increasing availability of the

internet have created an enabling environment for digital lending platforms to thrive. In Nigeria, with its large population and expanding internet penetration, multiple fintech startups have emerged to meet the demand for quick and accessible loans (Ajayi, 2023). For example, FairMoney is a Nigerian digital lending platform that leverages alternative data sources to provide instant loans to users. South Africa's Lulalend is another example of a digital lender that offers small business loans through an online platform, using automated credit scoring algorithms to provide quick and convenient access to working capital for entrepreneurs (Matsietsi, 2022). In Tanzania, Tala is a notable digital lending platform that utilizes smartphone data and other alternative sources to evaluate creditworthiness and disburse microloans to underserved individuals (Fedder, 2023).

Kenya, often considered a technological hub since the beginning of the 21st century, has given rise to innovative financial offerings, with Safaricom's M-Pesa serving as a prominent example. It is no surprise that technology and unsecured lending have thrived alongside each other in Kenya (Owuor, 2019). In Kenya, mobile money services, including M-Pesa and Airtel Money, offer not only payment services but also the ability to withdraw, deposit, and transfer funds through consumers' mobile phones. New mobile loan applications are continually entering the market, gaining a substantial customer base by offering a service that was traditionally challenging to access due to the strict requirements of traditional banks and savings and credit cooperative societies (Saccos) (Abuya, 2019).

To illustrate the scale of the mobile ecosystem in Kenya, the Communications Authority of Kenya (2018) reported that there were 53.2 million mobile subscriptions, with 31.2 million mobile money subscriptions. Recognizing the opportunities within the mobile phone sector, digital lenders have established a strong presence in Kenya, offering quick loans that are often processed within 24 hours, and in some cases, almost instantly, through mobile applications. Once approved, these loans are disbursed directly to borrowers' mobile money accounts (Aura, 2020).

The economic significance of the emergence of digital lending institutions in Kenya cannot be overstated. These platforms play a vital role in expanding financial inclusion by catering to the unbanked and underbanked population, allowing individuals and businesses to invest, grow, and participate more actively in the formal economy. Furthermore, Kenya's role as a technological hub is underpinned by its rapid adoption of innovative technologies (Kolade, Atiase, Murithi & Mwila, 2021). The convergence of mobile technology, mobile payments, and digital lending services has created a unique ecosystem where financial transactions and access to credit are seamlessly integrated into people's daily lives. In addition to the economic significance, the socioeconomic impacts of digital lending in Kenya are crucial to consider. While these platforms provide unprecedented access to credit, they also come with challenges. Rapid loan disbursement, often with high interest rates, can lead to issues of over-indebtedness among borrowers. Striking the

right balance between financial inclusion and borrower protection is essential for the sustainable growth of digital lending institutions (Ndemo, 2020).

Understanding the regulatory framework is paramount as well. The Central Bank of Kenya has been actively developing a regulatory framework to ensure the responsible operation of digital lenders (Mugo, 2023). This regulation is crucial to protect consumers, maintain financial stability, and foster healthy competition in the industry. Market dynamics in the digital lending landscape are highly competitive. Understanding these dynamics, such as market concentration, customer preferences, and competitive strategies, are crucial for digital lending institutions to thrive and perform well. Innovation and user experience are central to the success of digital lending platforms. Many of these platforms leverage cutting-edge technology, such as artificial intelligence and big data analytics, to assess creditworthiness and offer quick, personalized loan solutions. The ease of use and convenience offered by these platforms are key drivers of their popularity (Boldar, 2022). Financial literacy and education become increasingly important as digital lending institutions continue to grow in Kenya. Many borrowers may be new to formal financial services, and ensuring they are well-informed about the terms and responsibilities of borrowing is crucial. Furthermore, in a rapidly changing business environment characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), organizations must exhibit agility, meaning they can detect and respond to market shifts with ease, speed, and flexibility (Palang'a, Kamotho & Munene, 2020). Under these conditions, digital lending institutions need to be agile, responding swiftly and effectively to changes to maintain their competitiveness. By agility, we mean the ability of a firm to detect and respond to opportunities and threats with ease, speed, and dexterity (Rafi, Ahmed, Shafique & Kalyar, 2022).

This brings us to the significance of organizational capabilities. Effective utilization of organizational capabilities is directly linked to organizational performance (Wang & Zeng, 2017). Strategic organizational capabilities, as Wang and Kim (2017) emphasize, empower firms to differentiate themselves in the market and achieve customer satisfaction, which is particularly crucial in dynamic business environments characterized by volatile markets and environmental uncertainties. The capability to adapt, harnesses, and cultivate new organizational strengths to navigate this dynamic landscape is the cornerstone of sustainable competitive advantage for businesses. These capabilities enable managers to cost-effectively seize opportunities in the market and mitigate external threats (Zahra, Petricevic & Luo, 2022). Therefore, this study aims to investigate the impact of organizational strategic capabilities on the performance of digital lending institutions in Kenya, considering the complex economic, technological, regulatory, and socio-economic backdrop in which these institutions operate. This research seeks to shed light on how these organizations can effectively navigate this multifaceted environment to achieve optimal performance, balancing financial inclusion with responsible lending

Statement of the Problem

In today's business landscape, organizations face intense competition, globalization, and rapid technological changes, necessitating their adaptation and strategic innovation for survival and relevance. Digital lending institutions, in particular, must enhance their performance through strategic measures to excel in this dynamic environment (Papagiannidis, Harris & Morton, 2020; AlTaweel & Al-Hawary, 2021). The emergence of the COVID-19 pandemic has added a layer of complexity for fintechs, including digital lending institutions. Notably, the Digital Lenders Association of Kenya (DLAK) observed a significant decline in loan approvals, reducing from approximately Ksh 4 billion to Ksh 2 billion a month in digital loans since March 2020. This decline is attributed to the Central Bank of Kenya's (CBK) directive to disallow over 500 digital lenders from reporting defaulters to Credit Reference Bureaus (CRBs) (Onsando, 2021). Consequently, digital lending institutions are grappling with managing default rates and maintaining their financial stability.

In Kenya, fraudulent loan applications have emerged as a major challenge for digital lending institutions. Kamau (2019) estimated that out of the 108 million mobile loan applications submitted annually, 1.9 million are fraudulent, resulting in substantial financial losses for lenders. The inability to distinguish genuine borrowers from fraudulent ones poses a significant risk to the profitability and financial well-being of these lending platforms. Moreover, the high default rate on digital lending platforms exacerbates the performance problem, with approximately 2.5 million out of 6 million borrowers listed on CRBs as digital loan defaulters (Josephat, 2021). This highlights the imperative need for more effective risk assessment strategies and creditworthiness evaluations to minimize default rates and enhance financial performance.

Digital lending institutions also contend with fierce competition from traditional financial institutions, mobile money systems, and Savings and Credit Cooperative Organizations (Saccos). This competitive landscape has translated into lower market share, diminished profitability, and challenges in retaining customers, contributing to a higher rate of failures among digital lending institutions (Zahra, Petricevic & Luo, 2022). The resulting decreased access to credit for consumers underscores the urgency in addressing factors that impede the growth and success of these institutions.

While various challenges facing digital lending institutions are well-documented, there exists a notable gap in the research landscape regarding the specific role of organizational strategic capabilities in mitigating these challenges and enhancing the performance of these institutions. Understanding how these capabilities impact the performance, survival, and growth of digital lending institutions is essential in addressing the unique challenges they face, and in ensuring their long-term sustainability. In light of these multifaceted challenges and this critical study gap, it is imperative for digital lending institutions in Kenya to prioritize the establishment of effective

organizational strategic capabilities that can positively impact their performance. Without targeted and well-considered solutions, the growth of the sector may stagnate, hindering its ability to meet the financial needs of consumers (Mwanzia, 2021). Addressing issues related to risk assessment, default rates, and competition is pivotal for digital lending institutions not only to survive but also to thrive in the evolving financial landscape. Therefore, it is crucial to investigate the impact of organizational strategic capabilities on the performance of digital lending institutions in Kenya to ensure their sustainable growth and success.

Objectives of the Study

The study was guided by the following objectives:

i. To determine the effect of information technology capability on performance of digital lending institutions in Kenya.
ii. To examine the effect of market capitalizing agility on performance of digital lending institutions in Kenya.
iii. To determine the effect of dynamic innovation capabilities on performance of digital lending institutions in Kenya.
iv. To establish the effect of *knowledge management capability* on performance of digital lending institutions in Kenya.

Theoretical Perspective

This study was guided by five theories; resource based view theory, dynamic capabilities theory, knowledge based capability theory, and the people capability maturity model.

Resource-Based View (RBV) Theory

Resource-Based View (RBV) Theory was coined by Wernerfelt (1984), Penrose (1959), and Barney (1991). Barney (1991), in particular, made significant contributions by emphasizing the role of resources and capabilities in achieving competitive advantage. RBV regards the firm as a bundle of resources and capabilities that are heterogeneously distributed across firms that persist over time (Ambrosine & Bowman, 2009). Academicians suggest that when a firm has resources which are valuable, rare, inimitable and non-substitutable, they can use them to implement value creation strategies that provide a sustainable competitive advantage (Peteraf & Barney, 2003). RBV originates in the strategy literature (Wernefelt, 1984) which provides a useful framework for examining the development of management. This can be achieved by having critical resources that are firm-specific, valuable to customers, non –substitutable and difficult to imitate (Rugman & Verbeke, 2002).

Resource based view theory was employed with a major focus on how firm's resources and knowledge development affects performance (Kanyabi & Devi, 2012). It assumes that

organization to achieve competitive advantage; it has to develop its resources. Other who expanded the theory were Wernerfelt (1984) and Helfat and Martin (2015). RBV emphasized resources and capabilities as the origin of competitive advantage. Eisenhardt and Martin (2000) looked at maximizing long run profits through exploiting and developing firm resources. It characterizes resources as valuable, rare, inimitable and non-substitutable. Firms generate rents through differences in information, luck and capabilities. The RBV approach sees firms with superior system and structures being profitable not because they engage in strategic investments but because they have markedly lower cost to offer. It focuses on the rents according to the owners of scarce firm-specific resources rather than the economic profits from market positioning. It puts vertical integration and diversification into a new strategic light (Ambrosine & Bowman, 2009). The RBV theory has faced criticism for its tautological nature, as it sometimes defines resources as valuable, rare, and inimitable—traits that are relative and not always clearly defined. Critics argue that the theory does not offer clear guidance on how to identify these key resources.

RBV assumes that firms are heterogeneous in their resource endowments and that they can develop unique capabilities over time. It also assumes that these resources and capabilities can be a source of sustained competitive advantage. However, RBV has been criticized for its inability to explain how resources are developed and duplicated and failure to consider the impact of dynamic market environments (Priem & Butter, 2001). Some researchers have criticized RBV that it is a static theory that has failed to develop into a competitive advantage especially in dynamic environment fostered by rapid technological change (Priem & Butler, 2011) and in response to concerns; the capability, competencies and dynamic capability approach were developed. The literature indicates while possessing valuable, rare, inimitable and non-substitutable resources may be beneficial. Firms also require complementary capabilities to be able to deploy available resources to match market conditions to drive firm performance (Teece, Pisano & Shuen, 2007).

This theory is highly relevant, as it emphasizes how an organization's unique resources and capabilities, including information technology capability, market capitalizing agility, dynamic innovation capabilities, and knowledge management capability, can lead to sustained competitive advantage and improved performance. It aligns well with the study's objectives by emphasizing the role of unique resources and capabilities in achieving competitive success. It provides a framework for assessing how these specific capabilities contribute to the competitive success of digital lending institutions in Kenya.

Dynamic Capabilities Theory

The Dynamic Capabilities Theory was developed by Teece, Pisano and Shuen (1997). Teece et al. (1997) defines it as the firm’s ability to integrate, build and reconfigure internal and

external competences to address rapidly changing environments hence it reflects a firm's ability to achieve new and innovative forms of competitive advantage given market positions. It explains how firms must recognize, adapt and exploit critical opportunities. It shows how firms must have information processing routines capable of recognizing, adapting and exploiting critical opportunities which emphasizes the role of management in reconfiguring resources (Teece et al., 2007).

Dynamic capability supersedes the capability to generate and understand the implications of market information. A firm requires dynamic capabilities to coordinate inter-functional strategies responses that reinforce competitive advantage in the market place (Jaworski & Kohli, 2013). When viewed as dynamic capabilities, individual behaviors or routines can set a benchmark for expected behaviors across the firm to enhance understanding of the competitive value management based on dynamic capabilities perspective (Wong & Ahmed, 2007). Critics argue that dynamic capability theory lacks clear operationalization and practical guidance for organizations. There's also debate about whether dynamic capabilities can truly lead to a sustainable competitive advantage.

Dynamic capability has enhanced RBV by addressing the evolutionary nature of a firm's resources and capabilities in relation to environmental changes by identifying a firm or industry specific processes that are critical to the evolution of that firm or industry. Hou (2008) asserts that dynamic capabilities are the collection of resources for example technology, skills and knowledge-based resources. Helfat and Peteraf (2009) view dynamic capabilities as the capacity of a firm to purposefully create or modify its resource base and the focus is on the capacity of an organization facing dynamic environment to create new resources. This theory assumes that organizations operate in dynamic environments where they must constantly adapt and evolve. It posits that organizations can develop the ability to change their resource base and routines in response to market shifts.

Dynamic capabilities view acknowledges top management team's belief that firms' evolution plays an important role in developing dynamic capabilities (Teece, Pisano & Shuen, 2007; Helfat & Peteraf, 2009). According to Ambrosini, Bowman and Collier (2009) dynamic capabilities compose reconfiguration, transformation and recombination of resources. Eisenhardt and Martin (2000) argue that since market places are dynamic, it is the capabilities by which firms resources are acquired and deployed in a way that matches the firms' market environment that explains inter-firm performance. Barreto (2010) defines dynamic capabilities as the firm's potential to solve problems by sensing opportunities and threats and making timely market oriented decisions and to change its resource base.

Zollo and winter (2012) suggest that dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its

operating routines in pursue of effectiveness. Eisenhardt and Martin (2000) suggested that the functionality of dynamic capabilities can be duplicated so value for competitive advantage lies in the arrangement of resources hence the dynamic capabilities are the organizational and strategic routines by which firms achieve new resources configurations as markets emerge ,collide, split, evolve and die.

Arend and Bromiley (2009) criticized the dynamic capabilities theory by stating that the theory does not explain successful change with logical consistency, conceptual clarity and empirical rigor. Arend and Bromiley (2009) point to a lack of theoretical foundation, logical inconsistencies, halo effects of past research and incompleteness of explanation. Williamson (1999) criticizes the capabilities perspective and especially the dynamic capabilities framework regarding obscure and often tautological definitions of key terms and failures of operationalization. Other authors echo the critique of vague or confusing definitions that make it difficult to capture the construct (Danneels, 2008; Kraatz & Zajac, 2001; Winter, 2003). The lack of empirical research on dynamic capabilities is a reason for concern for several scholars (Newbert, 2007; Williamson, 1999). In this regard other authors note that the major part of empirical research on dynamic capabilities was conducted in qualitative case studies or concentrated on small sections of the concept (Wang & Ahmed, 2007) and that quantitative empirical tests of a comprehensive model of dynamic capabilities are underdeveloped.

As the findings remain unconnected, there is no clear understanding about the antecedents and consequences of dynamic capabilities, and until to date the construct dynamic capabilities remains abstract and diffuse as there is no widely accepted operationalization available (Barreto, 2010). Zahra, Sapienza and Davidsson (2006) further state that dynamic capabilities are often operationalized in a way that makes it difficult to differentiate between their existence and their effects. Another point of criticism regarding the capability perspective is that the field is lacking microfoundations that explain how individual-level abilities are leveraged to collective organizational level constructs like organizational capabilities or routines (Abell, Felin & Foss, 2008; Felin & Foss, 2005). Dynamic capability theory is relevant to the study as it helps in understanding how digital lending institutions can adapt and respond to the rapidly changing financial landscape in Kenya. It offers insights into the development and deployment of dynamic capabilities, which are key to improving performance in a fast-changing market.

Knowledge Based Capability Theory

The Knowledge Based Capability Theory extends the resource based view of the firm by Grant (1996), Spender (1996), and Nonaka (1994). Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm (RBV) initially promoted by Penrose (1959) and later expanded by Wernerfelt (1984); Barney

(1991) and Day (2011). The transfer of knowledge within organizations is not a trivial problem as the same complex technologies that are proof against imitation are also difficult to codify and teach to others (Kogut & Zander, 2013). External knowledge transfer challenges include different levels of knowledge transfer abilities between alliance partners, where those more effective at transferring knowledge outperform those less adept (Dyer & Singh, 2008). Knowledge is embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm (RBV) initially promoted by Penrose (1959) and later expanded by others (Wernerfelt 1984; Barney 1991).

Knowledge is a key intangible resource that is the primary source of a sustainable competitive advantage (Acedo, Barroso & Galan, 2006). The role of the firm is not simply to acquire an assortment of resources and capabilities, but rather to develop its organizational knowledge to produce a sustainable competitive advantage (Grant, 2016). The primary task of management is then to devise and establish routines necessary to integrate this knowledge (Grant, 2016). The knowledge-based theory rests on the assumption that resource and capability-based advantages are derived from superior access to and integration of specialized knowledge (Grant, 2016). Knowledge is created and held by individuals, but can become embedded within the organization as organizational processes and routines are performed repeatedly (Conner & Prahalad, 2006). These organizations can be considered social communities in which individual and social expertise and knowledge is transformed into valuable products and services (Kogut & Zander, 2013).

Firms can, therefore, be viewed as bundles of knowledge, where knowledge is an asset that serves as a source of differentiation and competitive advantage (Dierickx & Cool, 2009). Two critical knowledge processes in firms associated with the bundling of knowledge are creation and transfer (Von Krogh, Nonaka & Aben, 2001). The transfer of knowledge within organizations is not a trivial problem as the same complex technologies that are proof against imitation are also difficult to codify and teach to others (Kogut & Zander, 2013). External knowledge transfer challenges include different levels of knowledge transfer abilities between alliance partners, where those more effective at transferring knowledge outperform those less adept (Dyer & Singh, 1998). The theory assumes that knowledge is a critical resource, and its creation, transfer, and application are key drivers of competitive advantage. It posits that organizations can develop and leverage knowledge-based capabilities.

Some of the critiques of the knowledge based capabilities theory include Conner and Prahalad (1996), Foss (1996), Kogut and Zander (1992) and Kogut and Zander (1996). They urged that the theory attempt to explain firm organization in terms of a preference for such organization—a distinctly non-economic mode of explanation—and that it fails to sufficiently

characterize the nature of the firm, because they identify firm organization with the employment contract and neglect asset-ownership. Critics argue that KBV theory might not sufficiently address the challenges of measuring and managing intangible assets like knowledge. It also faces criticisms for being overly reliant on tacit knowledge.

In this study, the knowledge based capability theory was linked to the influence of knowledge management capabilities. Knowledge is embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. It provides a framework for understanding how knowledge within digital lending institutions can impact performance. It offers insights into the role of knowledge creation and management in achieving competitive success.

Innovation Diffusion Theory

Innovation Diffusion Theory, initially developed by Rogers (1976), is a vital framework that examines how innovations are adopted and spread within societies and organizations. This theory focuses on the processes and factors that influence the adoption of new ideas, practices, or technologies. In the context of your study on the performance of digital lending institutions in Kenya, this theory is particularly relevant for understanding how dynamic innovation capabilities can influence organizational success.

The theory identifies several key factors that affect the rate and extent of innovation adoption. These factors include the perceived attributes of the innovation, communication channels, the social system, and time (Wani & Ali, 2015). In the context of digital lending institutions, understanding how these factors influence the adoption of dynamic innovation capabilities is crucial. For instance, the perceived compatibility, relative advantage, and complexity of adopting these capabilities can significantly impact the rate of adoption.

In the study, you can explore how digital lending institutions in Kenya communicate and share information about innovative practices. Effective communication channels and networks within and between these institutions can play a vital role in the diffusion of innovation. Furthermore, the social system within the financial sector, including regulatory bodies, industry associations, and consumer perceptions, can influence how dynamic innovation capabilities are adopted and integrated (Wonglimpiyarat & Yuberk, 2005). Rogers' theory also acknowledges that innovations follow an S-shaped adoption curve, which starts slowly, accelerates during the early majority phase, and then slows down again as it reaches saturation. This curve can be applied to assess the pace at which dynamic innovation capabilities are integrated within digital lending institutions, and how this integration impacts their performance over time.

The theory is relevant to objective, which focuses on the effect of dynamic innovation capabilities. Understanding how innovations are diffused within digital lending institutions can provide insights into their impact on performance, as well as how organizations can effectively integrate and adopt innovations to gain a competitive edge. By applying the theory's stages, you can analyze how digital lending institutions adopt and adapt innovations to enhance their performance, and how the diffusion of innovation impacts their competitive position in the market. It provides a structured lens for exploring the innovation processes and strategies employed by these institutions.

RESEARCH METHODOLOGY

Research Design

Research design refers to the arrangement of conditions for collection and analysis of data in a manner that aimed to combine relevance to the research purpose (Blumberg, Cooper & Schindler, 2014). In addition, research design is a blue print which facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible hence yielding maximum information with minimal expenditure of effort, time and money. This study used the descriptive cross-sectional research design. Cross sectional descriptive research design was preferred because it sought on collecting and analyzing the quantitative and qualitative data and describes how the independent variables in the study influenced the dependent variables.

Target Population

The target population is the total number of the subjects of interest to the researcher (Wang, 2015). The unit of analysis in this study was the digital lending institutions, represented by the 22 institutions in Kenya. The unit of observation in this research was the 259 respondents. These respondents were selected from various departments within the digital lending institutions, including the head of the human resource department, operations department, finance department, research and development department, information technology department, head of customer care department, and sales and marketing department.

Sample Size and Sampling Technique

A sample is a representative portion of the population of interest which is randomly chosen (Wang, 2015). The sample size was determined using Yamane (1967) model, and the study sought to use a sample size of 157. According to Yamane (1967) Model:

$$n = N/1+N\ (e)^2 = 259/1+259\ (0.05^2) = 157$$

Where: n= the desired sample size

e= margin of error; the probability of error (i.e., the desired precision, in this case, 0.05 for 95 percent confidence level)
N= the total population size
=157 respondents

The sample size was selected using stratified proportionate random sampling technique. The goal of stratified random sampling was to achieve the desired representation from various sub-groups in the population. Stratified random sampling is unbiased sampling method of grouping heterogeneous population into homogenous subsets then selecting within the individual subset to ensure representativeness. The goal of stratified random sampling was to achieve the desired representation from various sub-groups in the population. In stratified random sampling subjects are selected in such a way that the existing sub-groups in the population are more or less represented in the sample (Yin, 2017).

Table 1: Sample1 Size1

Description	Target population	Ratio	Sample
Head of human resource department	37	0.607	22
Operations department	39	0.607	24
Information technology department	35	0.607	21
Head of customer care department	41	0.607	25
Sales and marketing department	36	0.607	22
Finance department	38	0.607	23
Research and development department	33	0.607	20
Total	**259**		**157**

Research Instruments

Questionnaires were used to collect primary data. The researcher employed primary data because it is appropriate to the current research topic and offers accurate information sought from the participants. The researcher administered the questionnaire individually to all respondents. Self-administered questionnaires were used to collect primary data. The surveys was used to save time and money, as well as to make analysis easier because they are ready to use right away.

Data Collection Procedures

A letter of introduction from the College of Human Resource Management was presented to the respondents to gain permission to ask questions from the participants. The researcher also obtained a permit from the National Commission for Science, Technology, and Innovation (NACOSTI) so as to be allowed to collect the necessary data from the respondents. An appointment was booked by the researcher with the respondents' firms two days before dropping the questionnaires. The questionnaires were administered through the drop and pick-

later strategy and substituted with Google docs where necessary to maximize the response rate. The researcher administered the questionnaires physically to the target respondents with the help of trained research assistants. The participants were given a period of a week to fill in the questionnaire. This was done to increase the rate of participants' response since the respondents were occupied with their work routines. In improving the rate of response, the ethical issues were put into consideration in this study. The researcher explained to the respondents the study significance. The respondents were assured by the researcher of the confidentiality and identity anonymity.

Data Processing and Analysis

The quantitative data in this research was analyzed by descriptive statistics using IBM Statistical Package for the Social Sciences (SPSS) version 27. Descriptive statistics included mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns emerging from the data. In addition to measures of central tendencies, measures of dispersion and graphical representations was used to tabulate the information. To facilitate this Likert Scale was used to enable easier presentation and interpretation of data. The analyzed data was then interpreted and presented in frequency tables.

In addition, the researcher conducted a Pearson's correlation and a multiple regression analysis so as to determine1 the relationship between variables. Since there were four independent variables in this study the multiple regression model generally assumed the following equation;

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + €}$$

Where:- Y= performance of digital lending institutions

β_0=constant

X_1= information technology capability

X_2= market capitalizing agility

X_3= dynamic innovation capabilities

X_4= *knowledge management capability*

€=Error Term

RESEARCH FINDINGS AND DISCUSSIONS

Reliability Analysis

Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency by establishing if certain items within a scale measure the same construct. Malhotra (2015) established the Alpha value threshold at 0.7, thus forming the study's benchmark.

Table 1: Reliability Analysis

	Alpha value	Comments
Information technology capability	0.768	Reliable
Market capitalizing agility	0.886	Reliable
Dynamic innovation capabilities	0.702	Reliable
Knowledge management capability	0.773	Reliable
Performance of digital lending institutions	0.811	Reliable

Cronbach Alpha was established for every objective which formed a scale. The findings in Table 4.2 illustrates that all the five variables were reliable as their reliability values exceeded the prescribed threshold of 0.7, Malhotra (2015). This, therefore, depicts that the research instrument was reliable and therefore required no amendments.

Validity Analysis

Exploratory factor analysis was used to establish the construct validity of the questionnaire. The factors that explain the highest proportion of variance the variables share was expected to represent the underlying constructs.

Table 2: Component Matrixa

	Component			
	1	2	3	4
The institution regularly updates the service charter to ensure they meet our customer needs	.155	**.461**	.206	.010
The institution has witnessed an improvement in customer referrals which has expanded our customer base	.027	**.524**	.359	.091
The institution regularly reviews our brand management to ensure the institution is recognized by our customers	.478	.058	**.730**	.310
The institution routinely monitors our internal operations to ensure attainment of our strategic goals	**.666**	.558	.266	.178
The institution constantly reviews our internal systems to ensure there is efficiency in service provision	.326	**.703**	.513	.125
Adoption of technology has cultivated organizational capabilities that enable our firm to outperform its competitors	.199	**.580**	.387	.143
Adoption of technology has led to the development of new services, new functions, and formation of new alliances	**.576**	.462	.420	.243
Our organization is able to use technology to efficiently produce more products than its competitors and at the lowest	.122	.197	.167	**.691**
The institution supports employees in deploying new innovations within their work units	**.666**	.558	.266	.178
The institution is undertaking an overhaul of our traditional systems and embracing digital products and services in our core operations	.192	**.626**	.169	.504
The institution conducts employee sensitization on the emerging technologies	**.506**	.034	.077	.185

The institution motivates our employees to advance their technical expertise and skills	**.755**	.274	.061	.214
The firm is good at ascertaining customers' current needs and what products they will need in the future	**.731**	.123	.041	.091
The firm has the ability to launch new products in the market successfully	.478	.058	**.730**	.310
Top management regularly discusses competitors' strengths and strategies.	**.666**	.558	.266	.178
The management responds to competitive actions that threaten the firm.	.340	**.773**	.079	.061
There is adoption of marketing information that enables the firm to maintain relationship with customers.	.207	.019	**.686**	.484
Market research is carried out to ascertain the needs of customers.	.330	.117	.377	**.602**
There are flexible structures that make the firm to respond to management better than competitors	.403	**.619**	.240	.115
We tend to recombine or reallocate resources to improve on the market areas of our products/services	.286	.148	**.778**	.088
We often realign or redistribute skills so as to meet the changing needs of the market	**.731**	.123	.041	.091
We regularly implement new or substantially changed business strategies	.478	.058	**.730**	.310
We know the staff members who have specialized knowledge and skills relevant for the business environment	**.666**	.558	.266	.178
We carefully interrelate actions between employees to manage fast changing conditions	.129	**.799**	.037	.183
We often review and update our products and services development efforts to make sure they match what customers want	**.627**	.472	.021	.558
We regularly scan the market/business environment in order to identify new business opportunities	.293	**.514**	.106	.231
Management successfully integrates existing knowledge with new information and knowledge acquired	**.683**	.178	.417	.350
My organization explicitly identifies strategic knowledge as a key element in our planning.	.217	.151	.000	**.514**
My organization acquires knowledge from external sources for developing new products	.330	.226	.256	**.534**
My organization uses knowledge to respond to consumer needs and preferences	**.811**	.113	.013	.063
Management encourages high levels of participation in capturing and transferring knowledge	**.799**	.129	.037	.183
Management has effective ways of exploiting internal and external information and knowledge into processes, products or services	.518	.412	.511	**.677**
My organization gives orientation towards the development, transfer and protection of strategic knowledge.	.293	**.514**	.106	.231

The above results allowed for the identification of which variables fall under each of the 4 major extracted factors. Each of the 33 parameters was looked at and placed to one of the 4 factors

depending on the percentage of variability it explained the total variability of each factor. From the factor analysis, all the variables' indicators high construct validity since all exceeded the prescribed threshold of 0.40 (Saunders, Lewis & Thornhill, 2012).

Regression Analysis

Multiple regression analysis was used to test the relationship between the variables where it shows how the dependent variable is influenced by the independent variables. The findings were as recorded on Table 4, 5 and 6.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.848	0.719	0.707	0.707

Table 4 tests whether the model is fit for data. From the model summary, the independent variables (information technology capability, market capitalizing agility, dynamic innovation capabilities, *and knowledge management capability*) were statistically significant predicting the dependent variable (performance of digital lending institutions in Kenya) since adjusted R square was 0.707 implying that information technology capability, market capitalizing agility, dynamic innovation capabilities and knowledge management capability explains 70.7% variation in performance of digital lending institutions in Kenya.

Table 5: ANOVA Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	123.121	4	30.780	59.613	7.45E-25
	Residual	48.019	93	0.516		
	Total	**171.14**	**97**			

The probability value of 7.45E-25 indicates that the regression relationship was significant in determining how information technology capability, market capitalizing agility, dynamic innovation capabilities and knowledge management capability influence performance of digital lending institutions in Kenya. The F calculated at 5 percent level of significance was 59.613. Since F calculated is greater than the F critical (Value = 2.2899), the overall model was significant.

Table 6: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.988	0.182		5.429	.000
Information technology capability	0.716	0.296	0.623	2.419	.020
Market capitalizing agility	0.606	0.208	0.527	2.913	.005
Dynamic innovation capabilities	0.803	0.117	0.699	6.863	.000
Knowledge management capability	0.714	0.312	0.621	2.288	.027

The established model for the study was:

$Y= 0.988+ 0.716X_1 + 0.606X_2 + 0.803X_3 + 0.714X_4$

Where: -Y= Performance of digital lending institutions in Kenya

β_0=constant

X_1= Information technology capability

X_2= Market capitalizing agility

X_3= Dynamic innovation capabilities

X_4= Knowledge management capability

The regression equation above has established that taking (information technology capability, market capitalizing agility, dynamic innovation capabilities and knowledge management capability), performance of digital lending institutions in Kenya will be 0.988 The findings presented also show that taking all other independent variables at zero, a unit increase in the information technology capability would lead to a 0.716 increase in the score of performance of digital lending institutions in Kenya. This variable was significant since the p-value =.020< 0.05. This conforms to Melián-Alzola, Fernández-Monroy and Hidalgo-Peñate (2020) argues that organizations that have higher technological skills appear to perform at the highest level, and also tend to be more innovative and creative.

Further it was found that a unit increase in the score of market capitalizing agility would lead to a 0.606 increase in the score of performance of digital lending institutions in Kenya. This variable was significant since the p-value =.005< 0.05. This is in line with AlTaweel and Al-Hawary, (2021) who stated that marketing activities are created and performed as a direct functioning of an organization's (superior) capabilities and take place in customer value-creating processes and networks . For example capabilities are manifested in such typical business activities as order fulfillment, new product development, and service delivery. In fact, there are a plethora of marketing activities that stem from marketing-based capabilities (Gomes, Sousa & Vendrell-Herrero, 2020).

Further, the findings show that a unit increases in the scores of dynamic innovation capabilities would lead to a 0.803 increase in the scores of performances of digital lending institutions in Kenya. This variable was significant since the p-value =.000< 0.05. These findings agree with Bogers, Chesbrough, Heaton and Teece (2019) who argue that investment in research and related activities is usually a necessary complement to this activity. To identify and shape opportunities, enterprises must constantly scan, search, and explore across technologies and markets, both local and distant.

The study also found that a unit increases in the scores of knowledge management capability would lead to a 0.714 increase in the scores of performances of digital lending institutions in Kenya. This

variable was significant since the p-value =.027< 0.05. This concurs with Basheer, Siam, Awn and Hassan (2019) reiterate that a firm's knowledge, skills and experience can create superior performance if a firm fruitfully uses them to add value.

Overall, dynamic innovation capabilities greatest effect on performance of digital lending institutions in Kenya, followed by information technology capability, then knowledge management capability while market capitalizing agility had the least effect on the performance of digital lending institutions in In Kenya. All variables were significant the since their p-values were less than 0.05.

Conclusions

The study concluded that information technology capability affects performance of digital lending institutions in Kenya positively and significantly. The study also deduced that in an increasingly competitive and technologically-driven landscape, institutions that invest in and leverage advanced IT capabilities are better positioned to succeed and remain relevant in the market. Therefore, with robust information technology systems and capabilities in place, these institutions can streamline their operations, enhance customer experiences, and effectively manage risk, leading to improved overall performance.

Further the study concluded that market capitalizing agility positively and significantly affects the performance of digital lending institutions in Kenya. Institutions that can quickly identify and capitalize on market opportunities are better positioned to attract new customers, retain existing ones, and gain a larger market share, driving improved financial outcomes. The study concluded that an agile approach requires constant vigilance, market intelligence, and proactive responses to stay ahead of competitors and seize emerging opportunities.

Moreover, the study concluded that dynamic innovation capabilities significantly affect the performance of digital lending institutions in Kenya. Embracing technological advancements empowers these institutions to enhance operational efficiency, customer experience, and risk management, ultimately impacting their financial performance positively. Moreover, the research concluded that the institutions that encourage a learning mindset and actively seek feedback can proactively adjust their strategies and offerings to maintain a competitive edge and enhance financial performance.

Additionally, the study concluded that knowledge management capability positively and significantly affects the performance of digital lending institutions in Kenya. Institutions that prioritize capturing, sharing, and leveraging knowledge are better positioned to make informed decisions, enhance operational efficiency, and deliver value to their customers, contributing to enhanced performance. By leveraging customer data and feedback, institutions can tailor their

products and services to meet customer preferences, driving higher customer satisfaction and loyalty, positively influencing financial performance.

Recommendations

The study recommended that digital lending institutions should prioritize investing in robust IT infrastructure, including modern software systems, secure data storage, and high-speed networks. A strong IT foundation enables efficient operations, seamless customer experiences, and data-driven decision-making. Moreover, given the prevalence of mobile usage in Kenya, digital lending institutions should prioritize mobile accessibility. Offer user-friendly mobile applications and optimize the digital lending experience for customers on various mobile devices.

Based on the conclusions, the study recommended that digital lending institutions in Kenya should create an environment where employees are empowered to propose and implement innovative ideas to respond swiftly to market changes. This can be done by regularly assessing the competitive landscape to identify potential market gaps and areas for growth. Moreover, the research recommends that the firms could create business models that can quickly adapt to changing market conditions and customer needs. This can be done by implementing agile methodologies to facilitate rapid product development and launch, hence enabling institutions to seize market opportunities promptly.

The study recommends that digital lending institutions should keep track of emerging technologies and trends in the fintech and digital lending space. Monitoring new developments allows institutions to proactively incorporate innovative solutions into their operations. The study also recommends that the firms should conduct regular innovation workshops and training programs for employees to nurture their creativity and problem-solving skills. Training sessions should also be conducted to help employees learn new approaches to drive innovation within the organization. The firms could invest in research and development (R&D) to continuously improve and innovate digital lending products and services. They should do this by allocating resources to R&D to enable the institutions to stay ahead of market trends and customer demands.
The study recommends that digital lending institutions in Kenya should implement robust knowledge management systems and platforms to capture, organize, and disseminate valuable knowledge within the organization by ensuring easy access to relevant information for employees across all levels. Moreover, the research recommends that the institutions should foster a culture of knowledge sharing by encouraging employees to share their expertise, experiences, and best practices through regular knowledge sharing sessions and collaborative platforms.

Based on research findings, the government can formulate policy recommendations that support the development of organizational strategic capabilities in digital lending institutions. These policies can be designed to incentivize innovation, enhance financial literacy, and promote

sustainable growth. The research also recommends that the firms should engage in constructive dialogue with regulatory authorities to ensure compliance with financial regulations while fostering innovation. Collaborative partnerships can lead to a conducive regulatory environment that supports digital lending growth while protecting consumer interests.

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