

**EFFECT OF ORGANIZATIONAL FACTORS ON LENDING LEVELS BY  
DIGITAL CREDIT PROVIDERS IN KENYA**

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**MCOM/149562**

**A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE  
OF MASTER OF COMMERCE OF STRATHMORE  
UNIVERSITY.**

**MAY 2025**

## DECLARATION

I declare this is my original work and has not been submitted for any other academic award to the best of my knowledge.

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## **DEDICATION**

I dedicate this project to my loving husband; Dr Ngetich, my precious children Peter, Jessica and Melissa for their love, patience and understanding throughout my academic journey.

I also dedicate this work to my father Micah Rotich for his support and cheering me all the way.

## **ACKNOWLEDEMENT**

I would like to thank my supervisor Dr. Geoffrey Injeni for his unwavering support and guidance throughout this project. Special gratitude also goes to Strathmore university for the opportunity to undertake this program. I also pass regards to my colleagues for allowing me to attend to school matters and research field work despite the busy work schedule, your support was heartfelt and appreciated.

## ABSTRACT

Organizational factors are vital in an organization when it comes to the decision-making process. Digital credit providers deploy various strategies to maintain optimal credit levels and realize effective credit management. Such measures significantly impact the loan provision and dictate the financial condition of the lender. The increased utilization of digital credit, among consumers with low financial literacy amid high non-performing loans, have heightened financial instability risks of the lenders. The purpose of this study was to establish the effect of organizational factors on lending levels by Digital Credit Providers (DCPs). The study was based on two theories namely the information asymmetry theory and the resource-based view theory. The specific objectives were; to determine the effect of firm size on lending levels by DCPs in Kenya, to determine the effect of age on lending levels by DCPs in Kenya, to determine the effect of corporate governance on lending levels by DCPs, to determine the effect of credit risk on lending levels by DCPs and to determine the moderating effect of regulatory factors on the relationship between organizational factors and lending levels of DCPs. The study employed the descriptive-cross sectional research design. The study's population was the 85 DCPs licensed by the Central Bank of Kenya (CBK) as at 1st, March 2025. The study was a census of all the 85 licensed digital credit providers in Kenya. The study used primary data to be collected with the aid of a structured questionnaire. Data was collected from owners, managers and directors of DCPs. The correlation analysis for the variables namely age, size, corporate governance and credit risk management revealed a positive correlation between predicting variables and the outcome variable. The findings revealed that there is a statistically significant relationship between organizational factors and lending levels of DCPs. The considered organizational factors namely firm size, age, corporate governance and credit risk management contribute substantially to lending levels by DCPs. The moderating effect of regulatory factors on the relationship between organizational factors and lending levels was also statistically significant. The recommendations of the study include; Digital credit providers should expand their asset base, broaden market reach, and diversify loan products through strategic partnerships and improved digital infrastructure. Newer firms must adopt established best practices to build credibility and secure long-term financing. Strengthening corporate governance by ensuring board diversity, gender inclusivity and continuous capacity building will enhance sound decision making. Finally, credit risk management with advanced analytics is essential for responsible lending and long-term stability. Various limitations were encountered in the study which include reliance on self-reported data from DCPs, which may be biased, the utilization of the cross-sectional design was limiting in terms of establishment of causal relationships, finally, the findings may not be generalized for other regulatory and economic contexts. The findings will contribute to knowledge on credit lending by DCPs which may invoke policies and good practices by digital lenders hence strengthening the performance of the sector.

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## LIST OF ABBREVIATIONS

<b>CBK</b>	Central Bank of Kenya
<b>CEO</b>	Chief Executive Officer
<b>CRBs</b>	Credit Reference Bureaus
<b>DCPs</b>	Digital Credit Providers
<b>FSD</b>	Financial Sector Deepening
<b>GDP</b>	Gross Domestic Product
<b>KBA</b>	Kenya Bankers Association
<b>KIPPRA</b>	Kenya Institute for Public Policy Research and Analysis
<b>KNBS</b>	Kenya National Bureau of Statistics
<b>RBV</b>	Resource Based View
<b>ROA</b>	Return on Assets
<b>SACCOS</b>	Savings and Credit Cooperative Societies
<b>SPSS</b>	Statistical Package for Social Sciences
<b>UAE</b>	United Arab Emirates
<b>VRIN</b>	Valuable, Rare, Inimitable, and Non-substitutable

## CHAPTER ONE: INTRODUCTION

### 1.1 Background of the Study

Kenya has emerged as a global leader in digital innovation with digital credit playing a vital role in driving economic growth and financial inclusion (Misati, Osoro, Odongo & Abdul, 2024). A report by Kenya Bankers Association (KBA) in 2022 showed that 87 percent of consumers of digital credit were SME owners who used the funds for various business functions such as capital investment, working capital and for business expansion. Despite their rapid expansion and contribution to financial inclusion, most digital credit providers experience challenges in sustaining healthy lending volumes due to limited access to credit information, over-indebtedness and irregular borrower assessment frameworks (Ndung'u & Mwaura, 2021). Additionally, organizational inefficiencies for instance weak governance structures and inadequate risk management strategies have hindered their capacity to scale lending operations effectively (CBK, 2022)

Whereas credit access from the mainstream financial institutions such as commercial banks, Savings, microfinance institutions and SACCOs have improved, micro-credit delivered through digital platforms has increased access and utilization of credit to a large population that was previously excluded from formal financial services in growing economies (Musau, Muathe & Mwangi, 2022). This increase is largely associated with the adoption of digital credit services in the financially underserved populations (Bazarbash, & Beaton, 2020). The utilization of digital channels to provide loans is associated with low transaction costs and ease of access to information hence deriving demand and expanding demand for credit (Senou, 2021)

Digital credit capitalizes on instant, automated and remote processing of micro loans hence making loan accessibility convenient. Consumer credit markets in the US have largely been penetrated by digital lending which was underserved by traditional channels (Jagtiani and Lemieux, 2018). According to Tang (2019) digital lending serves as an alternative to bank lending by serving marginal borrowers in the United States hence compliments bank lending with respect to issuance of small loans. Similarly, in Germany, fintech lenders serve the riskier consumers' category who need small loans and those

underserved by traditional banks (De Roure, Pelizzon, and Tasca (2016). The unregulated digital lending in South Africa has witnessed significant growth as alternative funding for the funding of small businesses and charitable causes (Geral, Tibane & Ken, 2018). The increased ownership of smart phones has increased accessibility to digital credit hence contributing to rapid growth and uptake of digital credit in Kenya. Competition Authority of Kenya in 2021 documented that the digital lenders offer small value loans of between Ksh 4,034 to Ksh 9,815. Multiple household surveys by FinAccess shows that Kenya's population borrowing from digital lenders increased to 2 million individuals in 2019 from 200,000 in 2016. This number had however reduced to 600,000 by 2021, possibly due to adverse impacts of the COVID-19 pandemic which may have triggered more credit defaults due to disruptions in income flows leading to negative listing of credit seekers by Credit Reference Bureaus (CRBs) (KIPRA, 2023).

Digital credit providers deploy various strategies for effective management of credit. Such measures significantly impact the loan provision through identification of potential defaulters, ascertaining liquidity levels and dictating the financial condition of the lender (Maina, & Njeru, 2023). The risks attributed with unsecured digital lending compel lenders to charge relatively higher fees and interest rates compared to conventional loan products to reduce their risk exposure. A study on digital credit products in Kenya revealed that whereas conventional loans attract interest averaging at 1.3 per cent per month, the percentage interest rates of digital lenders range from 2.1 per cent to 43.4 per cent monthly (Kamau, 2021)

### **1.1.1 Organizational Factors**

Organizational factors refer to the unique internal characteristics and attributes of a particular company that directly impacts on strategies and operations (Muema, 2023). These factors are specific to the individual organization and encompass elements such as financial structure, management practices, operational efficiency, corporate governance, and strategic decisions (Sahoo & Bishnoi, 2023). Analysing organizational factors is essential for understanding how these internal elements contribute to a company's competitive position, risk profile, and overall success in its industry (Nawaz et al., 2023). In the context of the study, organizational factors may include corporate governance, firm

age, firm size and credit risk management among others, as they are internal characteristics that directly impact credit lending by digital credit providers (Chemngorem & Njeru, 2023).

Firm age is defined as the duration to which a business has been in operation typically measured from the date of its legal registration (Rahman & Yilun, 2021). It serves as a measure of the company's maturity, operational experience and survival capabilities. Firm age is commonly used in financial and economic analysis to evaluate the company's business performance, credit worthiness and risk. Older firms are perceived to be more stable and reliable due to their experience and resilience in the market (Bazarbash, 2020). On the other hand, digital lender mostly serves start-ups and younger firms which may lack traditional credit histories hence mostly rely on data transaction records and digital footprints (Sommer, 2021)

Corporate governance refers to a system of rules, processes and practices by which an enterprise is controlled and directed. It essentially entails balancing the stakeholders' interests in the firm (Monks & Minow, 2021). Financial institutions indulge in excessive risk taking due to ineffective corporate governance emanating from poorly constituted board of directors. Well governed financial institutions exercise restraint in lending to riskier borrowers when such borrowers are in financial need. The existence of a board level credit risk committee signals a formal mechanism for the board to monitor the financial institution's investments (Fernando et al., 2020).

Credit risk management refers to the process of identifying, evaluating, monitoring, and mitigating the risk that a borrower fails to meet their financial obligations as per the terms. It entails implementing strategies and frameworks to reduce potential losses emanating from credit defaults (Sahay et al., 2020). Credit risk management has become increasingly critical for DCPs, as the rapid adoption of fintech platforms presents new challenges in assessing borrower creditworthiness. Unlike traditional financial institutions, digital lenders often rely on alternative data sources for instance mobile phone usage, digital transaction histories and social media activity to assess risk. (Ghosh & Vinod, 2022).

Firm size, in the context of this study, refers to the scale or magnitude of a digital credit provider, often measured by the total value of its assets (Fundi & Wamugo, 2023). Previous

researchers have utilized various metrics to gauge firm size, including total revenue, market capitalization, and total assets. Total assets, as a measure, encapsulate the overall value of resources controlled by a digital credit provider (Momanyi et al., 2023).

### **1.1.2 Regulation**

Digital credit is an innovative way by firms. The regulation of debt collection by digital credit providers in Kenya is a rapidly evolving landscape (Makena, 2018). Before 2022, lack of specific regulations subjected vulnerable borrowers to unfair and abusive practices. The Central Bank of Kenya (CBK) through "Legal Notice No. 46 of 2022, introduced regulations for Digital Credit Providers which highlighted various safeguards for borrowers. Prior to this, there existed the 2016 law which imposed interest rate capping and ceilings acceptable was 4% over the prescribed rate set by the CBK, but digital credit lenders were excluded. Nonetheless, the CBK finally regulated online lending firms after concerns of exorbitant interest rates and the hostile debt collection mechanisms deployed (Putman, Mazer & Blackmon, 2021).

The gazettelement of Digital Credit Providers Regulations, 2022 set a new wave on the operationalization of digital credit Kenya. The regulations provided for the licensing and oversight of previously unregulated sector. Additionally, the Regulations introduced the need for corporate governance, disclosures on pricing models, data protection among other requirements. The regulations further outlined prohibited behaviors like harassment and shaming, offering borrowers legal recourse through complaints mechanisms and lawsuits (Marsella and Pangestuti, 2023). The regulation also espoused the enforcement measures against non-compliant lenders which include fines and license revocation which are geared towards ensuring a more streamlined and friendlier operating environment for all stakeholders.

While digital credit has expanded financial access in Kenya, concerns linger regarding aggressive debt collection practices (Njenga & Kavindah, 2021). Although this may be attributed to inadequate securities or insufficient financial information pertaining to the borrower, this does not justify unlawful and aggressive debt collection measures implored by the Credit lenders. Regulation of the sector helps to bring sanity to the sector that has witnessed tremendous growth in the recent past. The Financial Sector Deepening (FSD)

report in 2019 showed that value of loans disbursed in 2018 by DCPs at KES 116.8 billion. Given the magnitude of this portfolio and escalating concerns regarding the predatory practices DCPs, the sector was likely to draw the regulator's attention. With the Regulations in place, digital lenders are expected to review their business models and undertake a thorough assessment on the credit worthiness of the borrower including pricing and utilization of existing credit information (Victor, Kate & Iraki, 2023).

### **1.1.3 Digital Credit Providers in Kenya**

The thriving of mobile money transfers services in Kenya just like other developing nations is pegged on the provision of digital credit (Totolo, 2018). Digital credit provision began in 2010 in Kenya with M-Kesho, a partnership between Safaricom and Equity Bank, where M-Pesa was used as a conduit to issue full-fledged savings account to mobile money users, with neither minimum balance or account opening fees. The platform offered small amounts of loans ranging from KSh 100-5,000 (Gakure et al., 2013). Despite the low uptake of this product, it created a good foundation for future delivery of digital credit. Since 2010, different other digital credit providers have emerged and financial institutions have been issuing credit via telecommunication services both independently and in partnership with telecommunication firms.

In Kenya, Digital credit providers are regulated by the Central Bank as captured in Act Cap. 491 and Legal Notice No. 46 of the CBK which requires all digital credit providers to seek CBK licensing and comply with the set of regulations. To date, 85 DCPs have been licensed in total. The digital credit landscape has made access to finance easier and more inclusive especially in rural areas hence increasing business and investment opportunities (Francis & Robinson, 2027)

DCPs are only allowed to engage in the business of lending credit and any other activity approved by the CBK and not allowed to collect deposits or advance any security when issuing digital credit (Claessens and Rojas-Suárez, 2020). Therefore, to make wise lending decisions, the managements of DCPs needs to align their organization structures in accordance to best practices in the financial sector in order to promote sustainable lending practices and avert losses (Macharia,2016). Additionally, DCP's management should abide

by the regulatory guidelines concerning lending in the sector in order to enhance professional conduct in the discharge of services (Nthiga & Simiyu, 2021).

## **1.2 Problem Statement**

Lending levels among DCPs in Kenya have become a growing concern as shown by fluctuations in loan disbursements, high default rates and regulatory scrutiny (Otieno & Thuo, 2024). Despite DCP's rapid expansion and contribution to financial inclusion most face challenges in sustaining healthy lending volumes due to inconsistent borrower assessment frameworks, limited access to reliable credit information and over-indebtedness (Ndung'u and Mwaura, 2021). Moreover, the lack of standardized risk management strategies and organizational inefficiencies have hindered the ability of DCPs to scale up lending operations hence limiting their ability to contribute effectively to the growth and stability of Kenya's lending ecosystem (CBK, 2022).

Private sector credit growth remains relatively low in Kenya, averaging at 10.7% as at November, 2023 in comparison to developed economies whose credit growth averages at 40.0% (Cytton, 2023). As more individuals and entities resort to digital platforms to fulfill their financial needs, having unique organizational attributes becomes crucial for lenders to handle increasing demand, automate processes, and maintain service quality as they grow (Amadi, et al., 2021). The increased utilization of digital credit, among customers with low financial literacy amid high nonperforming loans, has increased the risks of financial instability among lenders (Santos et al., 2020). DCPs operate under high risk of default from the rather vulnerable consumers of digital credit hence having robust organizational attributes to support lending operations is of essence (Oduor (2022).

Previous empirical studies have attempted to study the factors influencing lending levels by credit providers. For instance, Macharia (2016) examined the organizational factors influencing the implementation of lending policy in savings and credit cooperatives in Kitui, Kenya. Shikumo and Mirie, (2020) on the other hand analyzed the determinants of lending to SMEs by commercial banks in Kenya. Similarly, Cornelli et al., (2023) assessed drivers of growth in digital lending while Sommer (2021) delved into addressing the

setbacks of digital lending for credit markets and the financial system in low-and middle-income economies. From the foregoing, it is evident that lending has been linked with other constructs in different settings but none of the previous studies has attempted to analyze the impact of organizational factors on lending levels by digital credit providers in Kenya which is a gap that the investigator sought to address.

### **1.3 Research Objectives and Research Questions**

The general objective of the study is to examine the effect of Organizational factors on lending levels by Digital Credit Providers in Kenya

The study's specific objectives are;

1. To examine the effect of firm size on lending levels by DCPs in Kenya
2. To investigate the effect of Firm age on lending levels by DCPs in Kenya
3. To determine the effect of corporate governance on lending Levels by DCPs in Kenya
4. To establish the effect of credit risk management on lending levels by DCPs in Kenya
5. To determine the moderating effect of regulatory factors on the relationship between organizational factors and lending levels by DCPs in Kenya

### **Research Questions**

The study was guided by the following research questions;

1. What is the effect of firm size on lending levels by Digital Credit Providers in Kenya?
2. What is the effect of firm age on lending levels by Digital Credit Providers in Kenya?
3. How does corporate governance influence the lending Levels by DCPs in Kenya?
4. What is the effect of credit risk management on lending levels by DCPs in Kenya?

5. What is the moderating effect of regulatory factors on the relationship between organizational factors and lending levels by DCPs in Kenya?

#### **1.4 Scope of the Study**

The investigation sought to establish the effect of organizational factors on lending levels by digital credit providers in Kenya. The independent variables that the current study focused on are corporate governance, firm age, firm size and credit risk management. The lending levels was gauged based on the amount of loan issued. The study focused on 85 digital credit providers in Kenya licensed by the CBK in Kenya as at 30<sup>th</sup> September 2024. The study utilized primary data collected using structured questionnaires from managers and owners of digital credit providers. The study was conducted over a period of six months and finalized by March 2025. This period was considered long enough to provide adequate data for formulation of reliable inferences.

#### **1.5 Significance of the Study**

The study is of great significance since it generated information that is useful to the management of DCPs, policy makers and regulators as well as future researchers.

##### **1.5.1 Management**

This study holds significant implications for management within Digital Credit Providers in Kenya, offering valuable insights that can inform strategic decision-making and improve overall lending levels. By understanding the impact of organizational factors, the management can make informed choices relating to credit lending, risk management and explore all the opportunities available while mitigating the challenges.

##### **1.5.2 Regulatory Authorities**

Regulatory authorities in Kenya can benefit from this study by gaining a deeper understanding of the organizational factors influencing the lending levels by digital credit providers. Regulatory frameworks can be tailored to address the findings, ensuring that they align with the unique characteristics of DCPs and promote financial stability. For instance, the study's insights into the impact of lending levels can inform regulatory guidelines on the establishment of digital infrastructures such as the fibre optic in

underserved areas to boost uptake of digital services and drive financial inclusion. Through the findings, the regulator will also gauge the effectiveness of the existing regulations

### **1.5.3 Scholars and Academicians**

Researchers in the field of credit lending and finance will find value in this study as it contributes to the existing body of knowledge. The findings can serve as a basis for further research and exploration into the intricacies of lending by DCPs, with potential extensions to comparative analysis across different regions or over various time periods. By building on these firm-specific factors, researchers can deepen their understanding of DCP lending levels, dynamics regulations and available opportunities and challenges in the digital lending space.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The study's theoretical and empirical foundation are extensively discussed in this chapter. The chapter provides an overview of the literature relating to organizational factors and lending levels leading to identification of knowledge gaps which are conceptualized and operationalized in a bid to generate new knowledge or articulate evident gaps.

### **2.2 Theoretical Framework**

Several theories can be deployed to explain the relationship between organizational factors and lending levels by DCPs. However, information asymmetry theory and the resource-based view theory, were considered for the purpose of this study.

#### **2.1.1 Information Asymmetry Theory**

The information asymmetry theory was advanced by in the 1970s by three scholars namely George Akerlof, Michael Spence and Joseph Stiglitz. The theory explains a scenario when one party possesses better information advantages than the other. According to Lambert and Leuz (2012), this condition results to inefficiencies or market failure. Akerlof posits that information asymmetry incentivizes the seller to trade that do not meet the desired needs of the market. The recommended quality of goods will then subside with the market size hence a number of social and private returns may be controlled by various market institutions (Auronen, 2003).

Information asymmetry has been defined as an attribute of credit markets. Lenders face uncertainty regarding their credit worthiness since they may not notice some of the borrower's attributes and actions (Malvanova et al.,2012). These information asymmetries bring about adverse selection and moral hazard bottlenecks and may annul the outcomes of traditional competitive markets. Nonetheless, lenders over time resolve part of these informational issues. In the process of lending, financial intermediaries get to gather facts concerning the credit worthiness of the borrower thus they acquire some level of informational monopoly regarding their customers thus market power (Berge et al.,2019

On the contrary, failure by the clients to exploit the loan offers of other competing lenders compels them to be holed in bank-client relationships where they may pay interest rates above competitive levels (Greenbaum, Kanatas & Venezia (2019).

Limitations such as existence of ambiguity on how to define, apply, interpret, and further develop knowledge has impeded the progress surrounding the application of the information asymmetry. The theory is of essence in the investigation as it provides a guide to DCPs on the existence of information regarding various organization factors such as age, size, credit risk and corporate governance structures influence models for lending to avert potential losses or exercise caution when dealing with clients. A proper understanding of these factors places the firm to streamline lending processes and avert potential risks while its crucial for borrowers to identify reliable digital credit providers to work with.

### **2.1.2 Resource Based View Theory**

This theory was founded by Penrose (1959) who sought to broadly examine modern approaches to strategy and aspects of the resource-based view. The theory was later advanced by Wernerfelt (1984) and further reviewed by Barney (1991). The theory argues that the unique capabilities and resources are crucial sources of competitive advantage. The theory argues that the resources of the firm can be categorized as intangible and tangible resources. Tangible resources assume a physical state and easily quantifiable and include technological resources, physical assets and financial resources. Intangible resources, are those which are not easily quantifiable and founded in the entities' culture, human capital, knowledge, employee expertise and brand equity (Cooper et al., 2023).

The RBV theory argues that the company's resources are a source of competitive advantage if they possess attributes such as valuable, rare, non-substitutable and inimitable, (VRIN). Resources which match these standards are considered as strategic and are a source of sustained competitive advantage over the competitors (Wernerfelt,1984). Bottlenecks of the RBV theory include the complexity to empirically examine as its heavily dependent on qualitative evaluations of the capabilities and resources hence its validity to elaborate sustained competitive advantage is doubtful (Zahra, 2021). While the RBV theory outlines a framework for pin-pointing strategic resources, it provides a footprint on how

to nurture and optimize resources (Chatterjee et al., 2023).

The RBV focuses on how firm-specific capabilities and resources contribute to performance and competitive advantage. In this study, internal capabilities such as proprietary algorithms and agile loan approval systems can serve as unique resources driving competitive advantage for digital lenders

## **2.3 Empirical Literature Review**

Numerous empirical investigations have been done both in the local and global jurisdictions to demonstrate the connection between organizational factors and lending levels, but the findings have been varied in terms of findings. A critical analysis of empirical literature based on study objectives is provided in the sections below. An empirical review of the constructs that will be considered as predictor variables are discussed

### **2.3.1 Firm age and lending Levels**

Collier et al., (2016) examined how age and size distinctly influence the companies' financial management of infrequent risks. Firm-level data was collected preceding the Hurricane Sandy in the New York. The findings were in tandem with recent propositions of the dynamic risk management theory which purport that larger companies are more likely to insure and to utilize credit after a crisis. The results further show that young firms are exposed to many risks and are not insured against infrequent events and are ex post credit constrained. As such, younger and smaller companies disproportionately affected by the shock. The study presents a contextual gap as it was conducted in the New York. The current investigation seeks to examine the impact of organizational factors on lending levels by DCPs in Kenya.

An investigation by Sakai, Uesugi and Watanabe (2010) examined how a company's borrowing cost evolves as it ages. Panel data for over 200,000 bank-dependent small companies was analyzed for the time frame between 1997-2002. The findings revealed that the distribution of borrowing cost reduce over time. The shift in distribution was somehow associated with the selection of firms with higher costs of borrowing, but largely delineated by "adaptation" (the firm's borrowing costs reduce as they age). The findings further reveal

that the borrowing costs of the firm is dependent on the firm age even if firm size is controlled. These findings were in concurrence with Serolin (2023) who documented that older firm have a higher borrowing capacity and can borrow large amounts as posed to smaller firms. There exists a methodological gap as panel data was used which is different from the current study which will use the descriptive cross-sectional design. Moreover, the borrowing costs was a dependent variable as opposed to lending levels in the current study.

Coad, Daunfeldt and Halvarsson (2014) undertook an investigation on firm age and growth persistence to ascertain the most persistent firms between young and old firms. The sample constituted a rich dataset on all limited liability companies in Sweden during 1997-2010, incorporating firms of all ages and information on the year of registration. The findings revealed that the sales growth for new ventures is marked with positive autocorrelation and a negative correlation for older firms. Similar findings were documented by Zhao et al., (2021) that age has a negative effect on growth but a positive effect on subjective success and no effect on survival. It therefore seems that the growth trajectories for older companies are buffeted around by environmental turbulence, and that older companies have challenges of adjusting to new dynamics in the environment, whereas new firms need to grow so as to attain a minimum efficient scale. These findings were from a different set up while the current study was conducted on the licensed DCPs in Kenya.

### **2.3.2 Firm Size and Lending Levels**

This section explores the association between firm size and lending levels in the context of digital credit providers. The review analyzes findings from various studies while acknowledging limitations in generalizability due to different contexts and findings. Several studies suggest a positive association between firm size and lending levels.

Tipis (2022) in his study, found that large Commercial Banks in Kenya exhibited better Return on Assets (ROA) compared to smaller ones. This was after a positive association was found between the size of firm and its financial performance (ROA). The study concentrated on the 41 Kenyan commercial banks between 2017-2022 using secondary data retrieved from annual financial reports. The multivariate regression analysis showed that individual size of firm has a positive and statistically significant association of ROA

of banks. Ordinarily, this implores that firms should aim at growing their asset base so as to enjoy economies of scale which ultimately hence better capital disposition which may be issued as credit. On the contrary, Mkhairer and Werner (2021) documented an inverse relationship between bank size and the propensity of banks to lend to small businesses. Other than the contradicting results, the study linked firm size and performance of banks hence the scope varies from the proposed study which will focus on firm size and lending levels by DCPs.

Moreover, Mwangi (2018) observed a positive association between size and profitability for Kenyan commercial banks. This aligns with findings from Chalise and Adhikari (2022) for banks in Nepal, suggesting that larger institutions may benefit from economies of scale and have greater access to resources. The investigation assessed the effect of firm size on commercial bank's profitability. Data panel for the period between 2007-2016 was used. The findings revealed that firm size have a positive effect on bank performance. The research presents a gap since it focused on banks and not DCPs. The study was also conducted in a different geographical setting.

A review of a study findings by Shitutse, et al., (2019) showed that firm size positively and significantly influences lending levels. The investigation examined the impact of two constituents of capital structure, firm size and leverage on financial performance as measured by ROA of SACCOS in Kenya. Secondary data and primary was retrieved from 174 deposit taking SACCOs. On the other hand, Sangwan and Nayak (2021) reported that Microfinance institutions lend big loans to clients with high income, assets, land size, lower informal borrowings and having longer loan experiences. The proposed investigation seeks to further this investigation in the context of DCPs in Kenya

Also, studies like Pila et al. (2022) and Walela et al. (2022) delve deeper by examining how firm size moderates the association between other variables and performance. Pila et al. (2022) suggest that firm size might influence how financial uncertainty impacts manufacturing firms in Kenya. While their study doesn't directly address size and lending levels, it highlights the importance of considering potential factors that influence lending.

### **2.3.3 Credit Risk Management and Lending Levels**

Credit risk refers to the likelihood of loss in the event the debtor is unable to fulfill a financial commitment or obligation (Aduda & Obondy, 2021). Credit risk management describe the processes or measures set to contain the borrowers' default rate. Effective credit risk management leads to improved overall loan presentation and reduction of business risk (Steward & Lumont, 2018).

Digital credit providers ought to develop comprehensive procedures and systems for credit monitoring to ascertain the credit scorecard of individuals across different portfolios through credit appraisal monitoring and information sharing (Vava & Panchal, 2022). These steps prescribe the mechanism for identifying potential defaulters through frequent credit monitoring and taking corrective action. Proper credit monitoring ensure that the lender understands the current financial position of the borrower, lender is compliant with prevailing regulations, revises collateral provisions to the current obligation of the obligator, ranks potential credit issues and articulate problems on a timely basis.

An investigation by Taiwo et al., 2017 on the impact of credit risk management (CRM) on performance bank lending and Nigeria's Deposit money banks (DMBs) utilized time series data for between (1998- 2014). A regression model was utilized for data analysis. The findings revealed that prudent credit management strategies increase the savers and investor's confidence in banks and result to availability of more loans and advances and consequently higher profitability. The findings revealed that CRM has a negligible impact on loan portfolio and advances by Deposit money banks in Nigeria. These findings contradict with Njanike (2019) who documented failure to effectively manage credit risk as a major cause of bank crisis in Zimbabwe. This contradicting findings necessitate a study using real time primary data to examine the effect of credit risk on influencing lending levels by DCPS in Kenya

Njenga and Kavindah (2021) examined credit management strategies and digital lending applications' sustainability in Kenya. The findings revealed that credit appraisal strategies

positively influenced sustainability of Digital Lending Platforms in Kenya. The findings further revealed that pricing strategies and debt collection strategies positively and significantly influenced the sustainability of digital lenders. Digital lenders ought to improve their client appraisal strategies to lower their non-performing loans. Similarly, Nthiga and Simiyu (2021) found that credit risk management strategies such as credit scoring, loan review practices, financial literacy and customer satisfaction were all significant on lending decisions by digital financial firms in Kenya. The study concluded that the nature of their customer influence the lending decisions of the firm. The proposed study seeks to validate the findings in the context of DCPs in Kenya.

#### **2.3.4 Corporate Governance and Lending Levels**

Falaye and Krishnan (2017) attribute recent financial crisis by financial institutions to excessive risk taking due to ineffective corporate governance emanating from poorly constituted board of directors. Well governed financial institutions exercise restraint in lending to riskier borrowers when such borrowers are in financial need. The existence of a board level credit risk committee signals a formal mechanism for the board to monitor the financial institution's investments (Fernando et al., 2020). Financial institutions with more effective boards are unlikely to lend to risky borrowers (Faleye, & Krishnan 2017).

Board size refers to the total number of individuals serving on a company's board of directors. An investigation on board size by Ali et al., (2020) noted that larger board enhances market and accounting measures which improve performance. These findings are supported by previous works of Riyadh, 2019 and Haron and Aslam 2021 who documented that larger boards deliver better decisions due to members differences in academic qualifications, exposures, experience, skills and knowledge and information. On the contrary, studies such as Jayati & Subrata, 2018 and Noguera (2020) purport that larger board negatively influences organizational performance as a result of poor communication, increase agency costs and more free-riders which may result to conflict of interests that may compromise firm objectives. The current study will use board diversity as the component for corporate governance to test the lending levels by DCPs.

The audit committee is charged with monitoring of financial statements to ensure

compliance with national and international accounting standards. A study by Aldamen et al (2012) documented an inverse association between audit committee with firm performance. They argued that smaller committees exhibit better knowledge, skills and abilities hence they make timely decisions to optimize firm performance. On the contrary, Detthamrong et al. (2017) reported an inverse relationship between audit committee size and enterprise performance in Thailand. Oroud (2019) documented that the committee size significantly increases the company's return on assets. In Bangladesh, Rajon et al. (2021) established a negligible impact of audit committees on non-family establishments, whereas it adversely impacts the family firms.

In relation to gender diversity, previous findings show that males and female vary in terms of personality, academic qualification, communication style, knowledge, experience, skills and decision making (Jayati and Subrata, 2018). The positive association of gender diversity is augmented by critical mass theory as it demonstrates that more women participation in the board decreased agency cost and enhance decision-making process, hence boosting firm performance (Rajon et al., 2021). Lonascu et al. (2018) alluded that more women representation on board and CEO women drive firm performance in European markets. According to Riyadh et al. (2019), firm performance is enhanced in Indonesia when there is more female representation in the board. Ullah et al. (2020) further observes that CEO women and higher representation into board significantly enhanced firm value in Pakistan between the time frames 2010 and 2017. Additionally, Adeabah et al. (2018) and Owen and Temesvary (2018) demonstrated that firm performance was significantly enhanced when female representation was visible in Ghanaian firms. However, Tomislava et al. (2018) and Aslam and Haron (2021) documented a significant inverse association of CEO women on firm performance. The above studies linked corporate governance constructs with performance. Lending levels will be used as the dependent variable in the current study.

## **2.4 Summary of Literature Review and Research Gaps**

From the above studies reviewed, several empirical studies have been widely executed both locally as well as internationally on how organizational factors influence lending levels. The reviewed empirical literature demonstrates a multifaceted relationship between

organizational factors and lending levels, with varied findings across contexts and methodologies. Firm age is shown to influence credit access and risk exposure, with younger firms generally facing greater credit constraints (Collier et al., 2016; Sakai et al., 2010; Coad et al., 2014). Firm size tends to have a positive effect on lending capacity and financial performance, as larger firms benefit from economies of scale and resource access (Tipis, 2022; Mwangi, 2018; Shibusse et al., 2019). Credit risk management practices, particularly credit monitoring and appraisal strategies, are linked to improved lending outcomes and sustainability of digital lenders (Njenga & Kavindah, 2021). Corporate governance, including board size, audit committees, and gender diversity, shows both positive and negative associations with firm performance, with effective governance generally promoting prudent lending practices and institutional stability (Falaye & Krishnan, 2017; Ali et al., 2020; Rajon et al., 2021). However, much of the literature focuses on traditional banks and firms in different geographical contexts, highlighting the need for localized studies such as the current one on Digital Credit Providers (DCPs) in Kenya.

**Table 2.1: Summary of Relevant Studies and Gaps**

<b>Author and year</b>	<b>Objective of the Study</b>	<b>Major Findings and Conclusions</b>	<b>Knowledge Gaps Identified</b>
Mwakale (2018)	Factors influencing bank lending to women entrepreneurs in Nairobi, Kenya.	Years of operation of the firm, number of employees, startup capital and line of business operation, all influenced accessibility of bank financing to the women	Focus was on women lending. The current study was not gender specific but considered the DCPs in totality who lend to all categories of customers. The focus was on DCPs and not banks
Alqemzi et al. (2022) (2020)	Examines the effect of liquidity management on the firms' financial performance in United Arab Emirates (UAE)	The findings revealed that there exists a positive and significant association between liquidity management and financial performance.	The current investigation measured the effect of liquidity on credit lending levels by DCPs

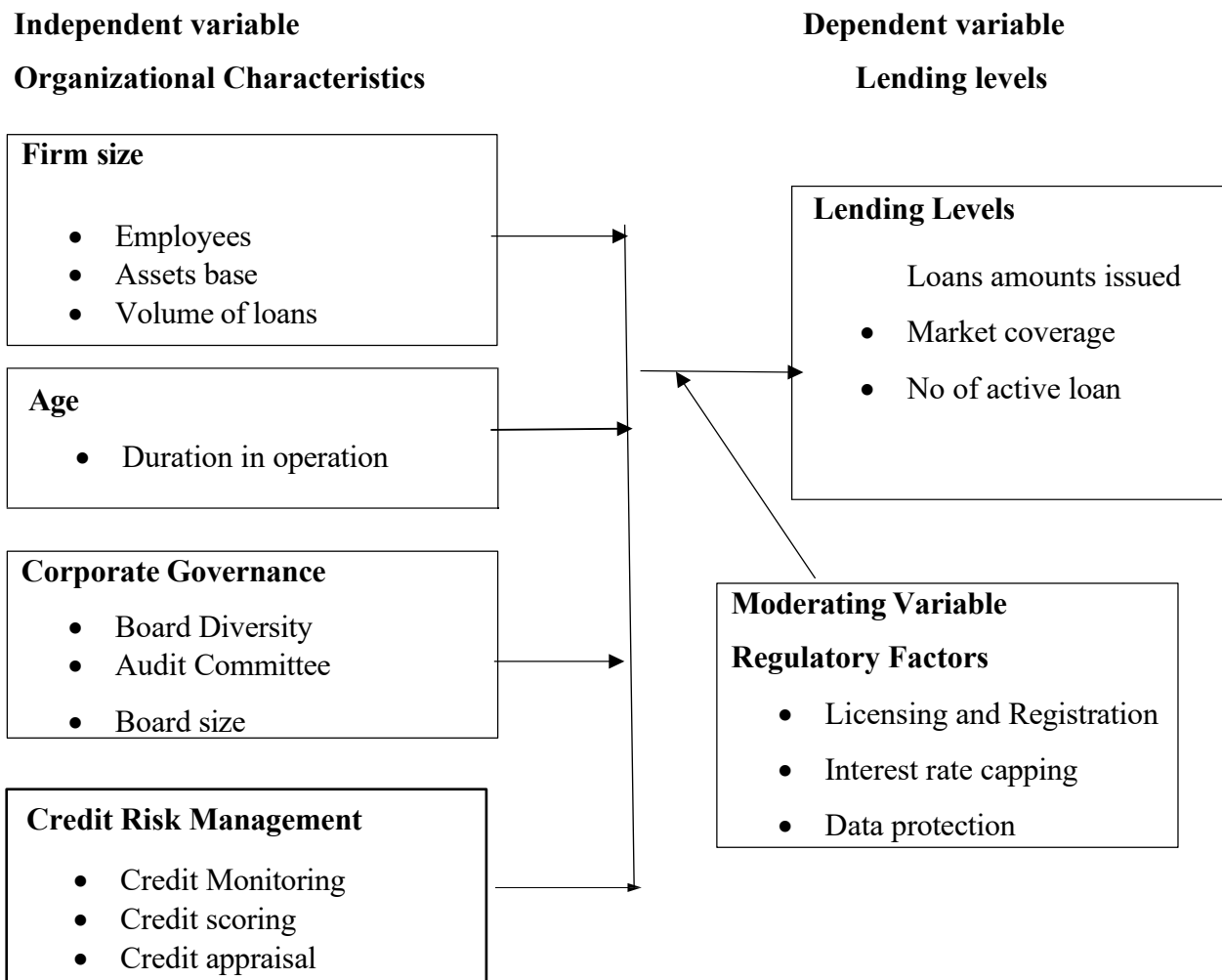
Totolo (2018)	The digital credit revolution in Kenya: an assessment of market demand	DCPs have robust frameworks for credit scoring and issuance of credit to customers	The study was based on evolution of digital lending in Kenya while the current study analyzed the organizational factors influencing lending levels by DCPs in Kenya.
Wachinga (2016)	Organizational Factors influencing Kenyan Company's' financial performance: A case of KTDA	The findings revealed that most tea factories have highly layered organizational structures with limited opportunities hence limiting the decision-making processes.	The study adopted different constructs such as effect of the predictor variable on financial performance. The current study explored the factors influencing lending by DCPs
Isa, M Latif, Nasrul, F., & Noh, R. A., Zaharum, Z., M. K. A. (2019).	Internal factors influencing the commercial bank's lending behavior in Malaysia	The findings reveal that deposit levels, liquidity levels and bank size have a significant impact on commercial bank's lending behavior in Malaysia	There exists a contextual gap as the investigation was conducted in a different geographical zone. The conceptualization of the current study also varied as it addressed the organizational factors influencing lending by DCPs

Tipis (2022)	Influence of firm size on the financial performance of commercial banks in Kenya	The research found that firm size had a positive and significant effect on banks' ROA, while credit risk had a negative impact	This study focused on only banks leaving a gap on other firms such as Digital Credit Providers
Rochmayasari (2022).	The impact of firm size, CSR inflation, exchange rates and interest rates on stock returns in the automotive firms quoted on the Indonesia Stock Exchange	Interest rates and CSR have a negative and negligible impact on stock market performance while inflation and firm size positively influence stock market performance	Due to the study's concentration on automotive and components sub-sector there is a contextual gap that prevents generalizations to other firms or nations.
Hsiao (2021)	Examined the relationship between firm size and stock returns for US stocks	They found that the size premium is positive and statistically significant, and that it is more pronounced for smaller firms.	The the study was carried out in the US, its conclusions may not be applicable in other circumstances such as those of DCPs in Kenya.

**Source: Author (2024)**

## 2.5 Conceptual Framework

The following conceptual model shows expected connection among research variables. Firm size, Firm age, corporate governance and credit risk Management were the independent variables while lending levels was the dependent variable. The relationship between the dependent and independent variables was moderated by regulatory factors.



**Figure 2.1: Conceptual Model**

Source: Researcher, 2025

## 2.6 Operationalization of the Variables

Table 2.2 indicates the criteria for the operationalization of the independent, control and dependent variables of the study. The measurements, supporting studies, study-based theories and the test of variables are highlighted

**Table 2.2 Table of Operationalization of Variables**

Variable	Measurement of Variable	Past Supporting Studies	Supporting Theories	Data Source	Analysis
<b>Dependent Variables</b>					
Lending Levels	Volume of loans issued, Market Coverage and no of active loans	Cornelli et al., (2023)	RBV	Questionnaire	Descriptive
<b>Independent Variable</b>					
Firm Size	Number of Employees, Assets,	Mwangi (2018); Pila et al. (2022)	RBV	Questionnaire	Regression
Age	Duration in Operation (years)	Sakai, Uesugi and Watanabe (2010)	RBV	Questionnaire	Regression
Corporate governance	Board Diversity, board size, audit committee Interval scale	Ali et al. (2020); Aslam and Haron (2021); Detthamrong et al. (2017)	RBV	Questionnaire	Regression
Credit Risk Management	Credit monitoring, scoring and appraisal Interval scale	(Vava & Panchal, 2022) Taiwo et al., 2017	Information Asymmetry Theory	Questionnaire	Regression
<b>Moderating variable</b>					
Regulation	Licensing and Registration, data protection, interest rate capping Interval Scale	Marsella and Pangestuti, 2023; Njenga & Kavindah, 2022	Information Asymmetry Theory	Questionnaire	Descriptive

## **CHAPTER THREE RESEARCH METHODOLOGY**

### **3.1 Introduction**

The sections outline the methodology that was followed in conducting the study. It details aspects such as the research philosophy that was adopted, the research design, population, sample and the sampling design. Information such as the data collection procedures, diagnostics tests and data analysis techniques are discussed in the study.

### **3.2 Research Philosophy**

Research philosophy refers to the overall procedure adopted by a researcher in the quest for the development of knowledge. It aids the researcher in selecting the criteria for choosing the research design and sampling technique to be utilized (Malhotra, 2010). Research philosophy sets beliefs regarding the reality being probed which guide the process of scientific research. It explains the evolution of knowledge and nature of knowledge (Creswell, 2009). Philosophy has four different paradigms namely: positivism, Interpretivism, realism and relativism. Realism is quantitative by nature and focuses more on figures; relativism is the paradigm that advocates for experimental data collection methods while experimental design includes laboratory data collection. Positivism and post positivism are the pre-dominantly applied research philosophies. Interpretivism is a research philosophy rooted in the belief that reality is socially constructed and best understood through the subjective experiences and interpretations of individuals.

Positivism entails uncovering the truth and presenting it empirically (Henning et al., 2004). The positivistic philosophical approach is anchored on real facts, objectivity, measurement, neutrality, and validity of results (Saunders et al., 2007). Its foundation is that observation and reason are effective in the apprehension of human behavior and that the actual perspective is acquired through experience of senses which is through observation and experiment. Positivists believe in reality and argue that reality is self-explanatory and measurable using metrics which are independent of the investigator and his or her instrument implying that knowledge is objective and quantifiable. On the other hand, Postpositivism philosophy argues that individual's experiences regarding the external world are subjective. They hold

the view that reality is socially constructed through language, consciousness and shared meanings (Myers, 2009)

The examination on the nexus between organizational factors and lending levels was pegged on the positivism philosophical approach. This paradigm aids in delimiting the link between organizational factors and lending levels while utilizing regulatory factors as the moderator. A positivist approach is appropriate for this study because it seeks to examine measurable relationships between clearly defined organizational factors (size, firm age, corporate governance and credit risk management) and lending levels among DCPs in Kenya.

### **3.3 Research Design**

Cooper and Schindler (2014) define a research design as the framework for collection, measurement and data analysis, a plan which enables the investigator to obtain answers to matters being investigated. Zikmund (2013) describes a research design as the logical plan which guides the research study, it specifies the study's objectives, the techniques to be adopted for realizing the objectives of the study.

This research employed the explanatory research design technique in executing the data analysis. Creswell and Creswell (2017), defines a descriptive survey technique as suitable in the generating the profile of the variables. Descriptive design technique provides real time analysis of study constructs. It entails a thorough scrutiny of problem and articulation of issues that are significant.

### **3.4 Population and Sampling**

Cooper & Schindler (2014) defines the population as a group of elements sharing common attributes. In respect of this study, the population will be the 85 licensed DCPs in Kenya as at 30 September 2024. Sampling refers to the selection of units from the population of interest. Sampling approach means the technique that is used to choose the sample (Zikmund, 2013). This research was a census because the population consisted all the 85 licensed DCPs in Kenya, making it feasible to gather data from all entities within the population.

### **3.5 Data Collection Methods**

A structured questionnaire was used to collect primary data. The questionnaire comprised of four sections. Section A captured the demographic information of the respondent, Section B entailed the organizational factors, Section C accessed regulatory factors and Section D dealt with lending levels. One questionnaire was sent or issued to each DCP where the target respondents were owners or managers of digital lending companies through a blend of drop and pick later method and email questionnaires. The structured questionnaire administered is presented in Appendix V.

### **3.6 Research Quality**

Research quality was ensured through pilot testing. Research quality encompasses validity and reliability (Lakonishok & Shapiro, 1986). For this study Pilot testing was conducted on 10% of the respondents. One respondent was targeted from each company either drawn from the management and operational team of the DCPs which includes the Directors, Managers, Credit Controller and Financial controller among others.

Validity refers is the degree to which the output derived from data analysis represent the matter under investigation (Mugenda & Mugenda, 2003). Validity seeks to ensure that the research instrument measures what it sought to measure by effectively addressing the research objectives. Expert opinions and opinions from the supervisor was sought to ensure validity.

For this study, the sampling method ensured the study design, conduct, and analysis answered the research questions without bias and endearing towards ecological validity where the expected findings can be generalized to real-life settings. Internally the data was subjected to careful analysis such that the quality of the content generated was of high standard. Reliability on the other hand measures the degree to consistently produces same results when administered severally (Mugenda & Mugenda, 2003). The Cronbach's alpha coefficient which ranges from 0 to 1 was used to measure reliability in the study. A value of 0.7 and above is acceptable (Field et al., 2012) while a value of less than 0.7 imply low internal

consistency. The reliability and validity test results were as shown below.

### 3.6.1 Reliability Tests

As indicated in Table 3.1 below, a reliability test was undertaken to ascertain the research

instrument's reliability.

**Table 3.1: Reliability Results**

Variable	Item	Alpha Value	Recommendation
Firm size	6	0.852	Reliable
Age	6	0.796	Reliable
Corporate governance	6	0.901	Reliable
Credit risk Management	6	0.884	Reliable
Regulatory factors	6	0.873	Reliable
Lending levels	6	0.876	Reliable

**Source:** Research Data (2025)

The Cronbach Alpha values were computed for all the variables. The findings outlined above show the Cronbach's alpha values greater than the threshold of 0.7 hence all the variables were reliable thus fit for analysis. Cronbach alpha values of more than 0.70 suggest that the responses will be accurate.

### 3.6.2 Validity Tests

The expert opinion of the supervisor and remarks of the panelists during proposal defense presentation were implemented to generate a robust data collection instrument that articulated the objectives under study thus guaranteeing the research instrument's validity

### 3.7 Data Analysis

Saunders, Lewis and Thornhill (2009) indicated that the data collected must be processed in order to obtain more meaningful information. The data collected was sorted systematically to help address the research objectives. Data was analysed and condensed into various

categories by editing, paraphrasing and summarizing to enhance and understand the meaning. The SPSS software version 23 was utilized for data analysis. The investigator presented the findings quantitatively using tables and figures. Descriptive statistics was employed for summarizing and explaining the extent of adherence to various organizational factors by digital credit providers. The summarized data was interpreted and presented using different techniques such as verbatim and narratives or direct quotations. The independent variables are firm size), firm age, corporate governance and credit risk management. Ordinal regression analysis was performed to measure the effect of organizational factors on lending levels. The ordinal regression approach was pegged on assumptions such as independence of observations meaning each DCP operates independently, no multicollinearity implying that the variables should not be too highly correlated and sufficient sample size. The regression model was as represented in the regression equation below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y = Lending Levels

$\alpha$  - Intercept,

$\beta_1, \beta_2, \beta_3, \beta_4$  – Regression coefficients of the predictor variables,  $X_1$  = Firm Size

$X_2$  = Age

$X_3$  = Corporate Governance  $X_4$  = Credit Risk Management  $\epsilon$  - Error term

The moderated model was as follows:

The study adopted the moderating model advanced by Burns and Burns (2018).

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 M + \beta_6 X_1 M + \beta_7 X_2 M + \beta_8 X_3 M + \beta_9 X_4 M + \epsilon$$

Where:

M = Moderating variable (Regulatory Factors)

All variables must be adjusted through the moderating variable (M). The interaction terms ( $X1it * M$ ,  $X2it * M$ ,  $X3it * M$ , and  $X4it * M$ ) should be calculated using the compute function as specified by the model. If  $\beta_5$ ,  $\beta_6$ ,  $\beta_7$ ,  $\beta_8$ , and  $\beta_9$  are significant, it indicates the presence of moderation effects in all four relationships. If only one of them is significant, moderation is present in that specific relationship. However, if none of these coefficients are significant, no moderation effect exists, and M functions as an independent variable instead.

### **3.8 Diagnostic Tests**

To test the model's viability, several diagnostic tests are performed using pre-estimation procedures (Njagi, 2017). Multicollinearity and normality tests were performed on the study. Normality assumption presumes normal distribution of data. Normality may be measured using G graphical or analytical methods. When G graphical is used to test the normality of the data collected, the plotted curve should have a bell-curve frequency distribution. Some of the analytical methods that can be employed to test for normality include Shapiro Wilk test and Kolmogorov- Smirnov (KS) test (Martelli &Greener,2018). In the KS test, the  $p \leq \alpha$  (0.05) implies that the data does not come from a specified distribution. The investigator used the Shapiro Wilk test due to the size of the sample. This was appropriate due to the relatively small sample size.

On the other hand, multicollinearity infers to a situation when two or more predictor variables have a high correlation between them (Saunders et al. 2009) which means that the predictor variables can be used in predicting one another. The existence of multicollinearity undermines the statistical importance of the explanatory variable. The existence of multicollinearity generates coefficients that are highly sensitive in the model hence weening the power of the model (Martelli &Greener, 2018) results to skewed outcomes and consequently wrong conclusions. The Variance Inflation Factors (VIF) was used to test for multicollinearity in this study. If VIF factor  $>10$ , then a serious multicollinearity exists. In such a scenario, more data is obtained and the collinear variables are dropped.

### **3.9 Ethical Consideration**

Requisite permits, approvals and consent were sought before data collection since it is an ethical requirement in research. Approval to proceed with the research was obtained from Strathmore. Business School. Also, a research permit from the NACOSTI for authorization to conduct the study in Kenya. Confidentiality and privacy was also observed as this is an ethical requirement by Strathmore University Ethical Review Committee and NACOSTI. The study sought to maintain high level of confidentiality and where necessary there in need for revealing any information, the consent of the participant was sought first.

## CHAPTER FOUR: PRESENTATION OF RESULTS

### 4.1 Introduction

This chapter outlines the results of the analysis of a study on the effect of organizational factors, regulatory factors on lending levels of digital credit providers in Kenya. The analysis was performed as per the study objectives. The analysis was conducted using the SPSS statistical software to generate both descriptive statistics and inferential statistics. The findings were presented using tables as outlined below.

### 4.2 Response rate

The sample size constituted 85 respondents representing the total number of licensed DCPs in Kenya. The response rate was as presented in Table 4.1 below;

**Table 4.1: Response Rate**

	<b>Number</b>	<b>Percentage (%)</b>
Returned	61	71.8
Non-response	24	28.2
<b>Total</b>	<b>85</b>	<b>100</b>

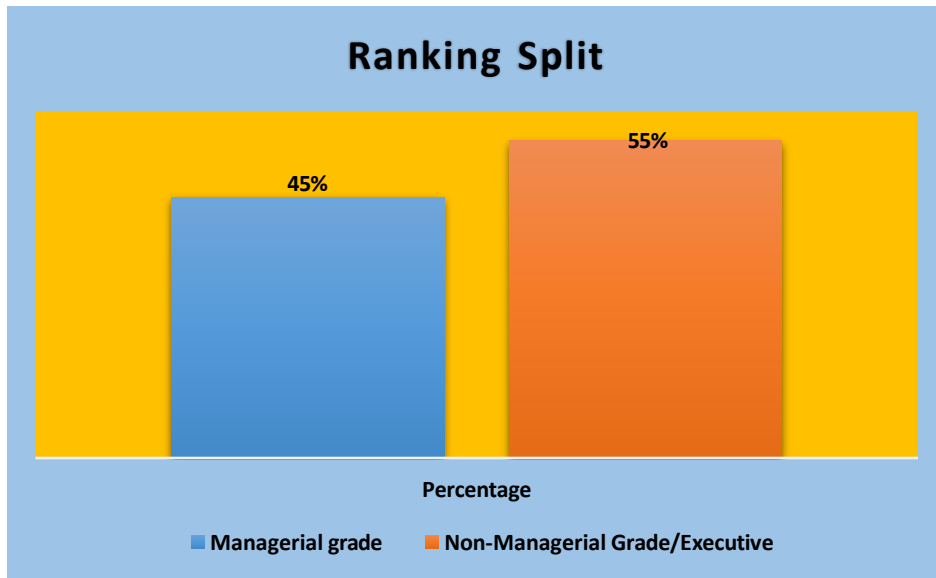
The 71.8 per cent response rate is excellent for generalization and analysis based on Mugenda and Mugenda (2003) who described 70% response rate a very good for analysis and fit for generalization of the findings.

### 4.3 Demographic Analysis

This section covers the demographic profile of the respondents and the DCP firms under investigation which is crucial for gauging the participant's ability to articulate the issues under investigation. Factors such as the duration employed in the DCP, rank in the organization and duration in current position were evaluated. The analysis is provided below;

### 4.3.1 Ranking Split

The study sought to establish the rank/position of the respondent in the organizations they were employed. The findings were as shown in Figure 4.1 below

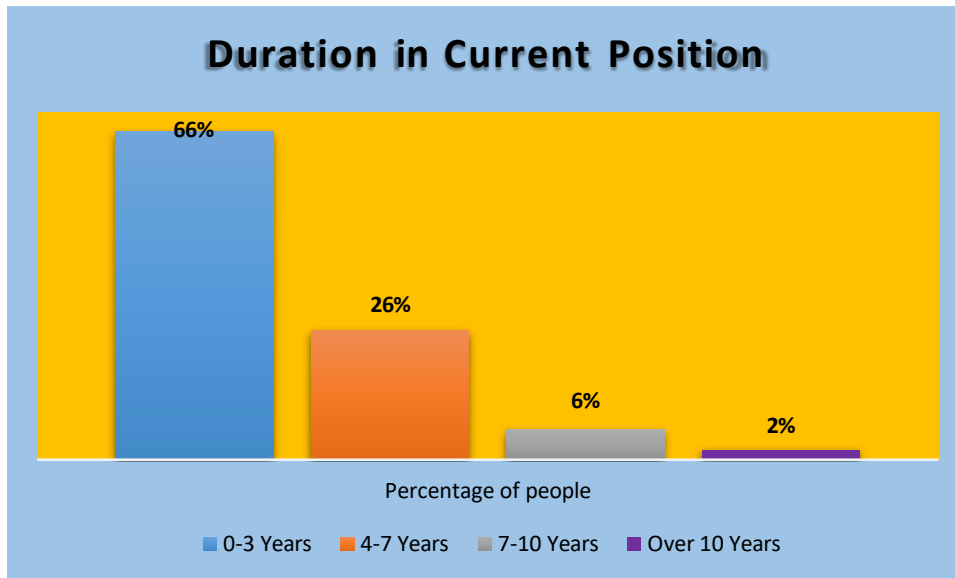


**Figure 4.1: Rank**

From the findings above, 55% of the respondents were drawn from the non-managerial employees/executive ranks while 45% were in the managerial grade. Those drawn from the managerial grade included the branch managers, financial service managers, managing director general manager, Loans executives, operations manager, senior sales executive and team leaders while those non managerial grades included administrators, credit analysts, credit finance controller, credit verification officers, debt collectors, loan officers, sales and loans assistants.

### 4.3.2 Duration in Current Position

The study sought to establish the duration in which the employees have served in their current position. The findings were as shown in Figure 4.2 below



**Figure 4.2: Duration in the Position**

When clustered into 3-year interval bands, 66% of the employees have serving in their current position(s) for 3 years and below. 26% of the employees have been discharging their current role for 4-7 years. On average, the employees have been in their current rank/position for 3.5 years

#### **4.4 Organizational Factors**

The study sought to establish the extent to which the lending levels of DCPs is influenced by various organizational factors. Frequencies and descriptive statistics of different organizational factor variables namely firm size, age, corporate governance and credit risk were assessed. Various attributes of descriptive statistics were assessed using a five-point Likert scale of 1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree. The results were as provided in the section below;

##### **4.4.1 Firm Age**

The respondents were asked to indicate the duration in years in which their organizations have been operating. The findings were as depicted in the frequency Table 4.3 below.

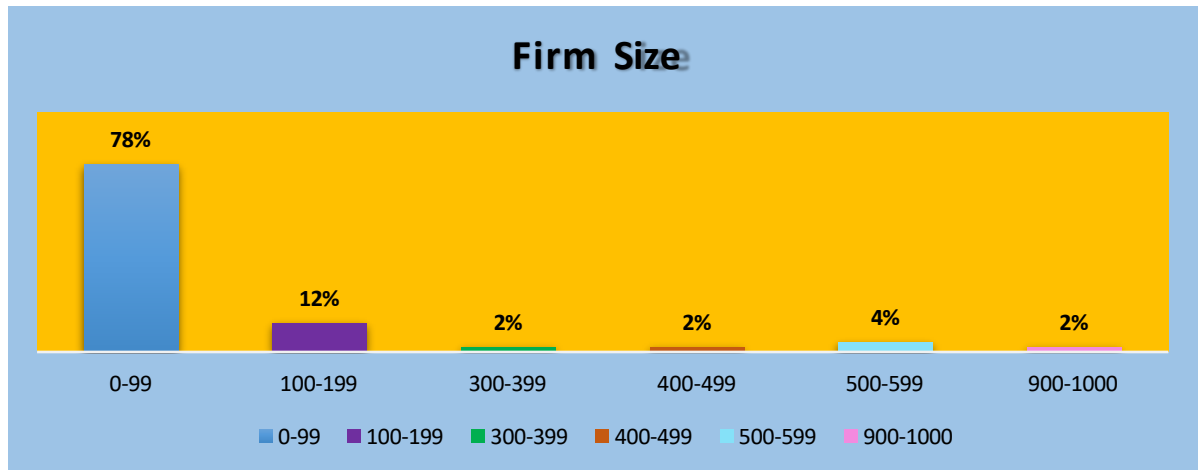
**Table 4.2: Age**

<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
10	1	1.6
11	3	4.9
12	3	4.9
13	4	6.6
15	2	3.3
16	3	4.9
17	2	3.3
14	2	3.3
8	4	6.6
7	5	8.2
6	3	4.9
2	4	6.6
3	4	6.6
4	5	8.2
5	8	13.1
6	5	8.2
9	3	4.9
<b>Total</b>	<b>61</b>	<b>100.0</b>

From the analysis above, majority of the firms have been in existence for 8 years. The oldest digital lender has been in operation for 17 years while the least has been operating for one year. On average, the organizations have been in existence for the last 8.3 years.

#### **4.4.2 Firm size**

An investigation to ascertain the size of various DCPs was performed. The first part of the inquiry sought to determine the number of employees in each firm while Likert scale questions were presented in the second part of the analysis to generate descriptive statistics.



**Figure 4.3: Firm Size**

The findings above show that majority of firms, 78% are operating with less than 100 employees. According to the findings, the average firm workforce is 98 employees.

Different attributes of firm size were assessed in a five-point Likert scale of 1-Strongly disagree, 2-Disagree, 3-Neutral, 4- Agree and 5 Strongly agree. The findings were as shown in Table 4.3 below.

**Table 4.3: firm size**

	N	Mean	Std. Deviation
The firm has a broad asset base	61	4.11	.777
The number of active loans to customers have been on the rise over the last one year	61	4.23	.739
The firms market share covers the entire country	61	3.95	.973
The company offers loans with both shorter maturity and long maturity timelines	61	4.16	.711
<b>Average</b>	<b>61</b>	<b>4.11</b>	

From the results highlighted in Table 4.4 above, majority of the participants agree that their organizations have a broad asset base (M-4.11, SD-0.777). Similarly, the respondents agree that the number of active loans have been on the rise over the last one year (M-4.23, SD-0.739). Additionally, the majority agreed that their loan products served the entire country

(M-3.95, SD- 0.739). Finally, the respondents agree that the company offered loans shorter and longer maturity timelines (M-4.16, SD-.711). Overall, the respondents agree with the various statements on firm size as shown by the average mean of 4.11.

#### 4.4.3 Corporate Governance

The study sought to establish the extent to which DCPs adhere to various corporate governance aspects. The attributes were gauged in a Five Point-Likert scale of 1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5- Strongly agree. The findings were as shown in Table 4.4 below

**Table 4.4: Corporate Governance**

	N	Mean	Std. Deviation
Board members are well educated	61	4.66	.574
Board members are highly experienced	61	4.54	.647
The board members possess high professional experience	61	4.44	.719
There is equal gender inclusivity in the board	61	3.90	.961
The ethnic balance in the board is fair	61	3.80	.771
<b>Average</b>	<b>61</b>	<b>4.27</b>	

The results in Table 4.5 above show that the respondents unanimously agree that board members are well educated (M-4.66, SD-0.574). Additionally, the participants concur that board members are highly experienced (M-4.54, SD-0.647). Moreover, most respondents agree that board members possess high professional experience (M- 4.44, SD-0.719). Majority of the respondents also agree that there is equal gender inclusivity in the board and that the boards ethnic balance is fair as shown by means of 3.90 and 3.80 respectively. The overall mean of 4.27 implies that most DCP’s corporate governance structures are effective.

#### 4.4.4 Credit Risk Management

The researcher sought to measure the extent to which the firms handle different credit risk matters. Various credit risk attributes were assessed in a five-point Likert Scale of 1-Strongly disagree, 2- Disagree, 3-Neutral, 4-Agree, 5- Strongly agree. The findings were as shown in Table 4.5 below

**Table 4.5: Credit Risk Management**

	N	Mean	Std. Deviation
Review of credit monitoring and appraisal measures	61	4.34	.680
Efficacy of debt collection strategies	61	4.13	.741
Measures to contain the default rate of borrowers	61	4.10	.724
Exposure to credit risk	61	4.02	.846
<b>Average</b>	<b>61</b>	<b>4.15</b>	

According to the results above, it is evident that majority of the firms often review their credit monitoring and appraisal measures (M-4.34, SD-0.680). Further, the participants agree that there is efficacy in DCP's debt collection strategies (M-4.13, SD-0.741). Similarly, the findings portend that the firms have established measures to contain the default rate of borrowers while most appreciated that there was high exposure to credit risk (M-4.02, 0.848). The average mean of 4.15 alludes that DCPs acknowledge credit risk management as a crucial organizational factor and have established several measures to mitigate the same.

#### 4.5 Regulatory Factors

The study sought to establish the extent to which the relationship between organizational factors and lending levels among DCPs is moderated by regulatory factors. Various attributes of regulatory factors were evaluated in a five-point scale of -Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5- Strongly agree and the results were as depicted in Table 4.6 below;

**Table 4.6: Regulatory factors**

	N	Mean	Std. Deviation
Regulations relating to sharing credit information and data protection exist	61	4.28	.581
The regulatory framework provides that the business conducts itself as a responsible entity	61	4.43	.694
The business is compelled by the CBK to comply with lending provisions in the country	61	4.49	.674
The business adheres to regulatory requirements for cushioning against cybersecurity	61	4.48	.788
The existence of a regulatory framework has helped the business to curtail vices such as discrimination in lending	61	4.05	.884
<b>Average</b>	<b>61</b>	<b>4.35</b>	

From the results above, it is evident that regulatory factors influence the relationship between the independent and dependent variable as shown the overall mean of 4.35 on the attributes presented. Particularly, the respondents agree that there exist regulations relating to sharing credit information and data protection (M-4.28, SD-0.581). Majority of the respondents also agree that the regulatory framework provides that the business conducts itself as a responsible entity (M-4.43, SD-0.694). The respondents also agree that the business is compelled by the CBK to comply with lending provisions in the country (M-4.49, SD-0.674). Moreover, the study concludes that DCPs adhere to regulatory requirements for cushioning against cybersecurity (M-4.48, SD-0.788). Finally, the participants agree that the existence of a regulatory framework has helped the business to curtail vices such as discrimination in lending (M-4.05, SD-0.884).

#### 4.6 Lending Levels

Various factors used to evaluate the lending levels of DCPs were evaluated in a five-point Likert scale of 1-Strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5- Strongly agree and the results were as depicted in Table 4.7 below;

**Table 4.7: Lending levels**

	N	Mean	SD
The frequency of loan requests is unlimited as long as the previous loan is fully settled	61	4.34	.655
The firm's number of loanees has been increasing gradually on an annual basis	61	4.36	.753
The business offers individual loans	61	4.33	.790
The business offers group loans which are of a higher amount to support business services	61	4.16	.986
The firms market share covers the entire country	61	4.11	.896
<b>Average</b>	<b>61</b>	<b>4.26</b>	

According to the results above, majority of those concur that the frequency of loan requests is unlimited as long as the previous loan is fully settled (M-4.34, SD-0.655). Those tallied also affirmed that the firm's number of loanees has been increasing gradually on an annual basis (M- 4.36, SD-0.753). The study further showed that DCPS offer both individual and group loans of higher amounts as shown by means of 4.33 and 4.16 respectively. The results also suggest that the most DCPs market share cover the entire country (M-4.11, SD-0.896)

#### 4.7 Correlation Analysis

The Pearson correlation was performed on all variables to determine the relationship between the variables.

**Table 4.8 Correlation Analysis**

		Lending Levels	Size	Age	Corporate governance	Credit management	risk
Lending Levels	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	61					
Size	Pearson Correlation	.446**	1				
	Sig. (2-tailed)	.000					
	N	61	61				
Age	Pearson Correlation	.372**	.433**	1			
	Sig. (2-tailed)	.003	.000				
	N	61	61	61			
Corporate governance	Pearson Correlation	.426**	.556**	.402**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	61	61	61	61		
Credit Management	Risk Pearson Correlation	.259**	.211**	.316**	.419**	1	
	Sig. (2-tailed)	.001	.000	.000	.000		
	N	61	61	61	61	61	

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

The correlation analysis for the four variables namely age, size and corporate governance and credit risk management revealed a positive correlation between predicting variables and the outcome variable. Size ( $r=.446$ ,  $p<.01$ ), Age ( $r = .372$ ,  $P<0.01$ ), Corporate governance ( $r = .426$ ,  $p <. 01$ ) ( $r = .259$ ,  $p <. 01$ ). Therefore, there exists a statistically positive relationship between age, size and corporate governance and credit risk management on lending levels of DCP in Kenya

## 4.8 Diagnostic Tests

Diagnostic tests were performed to verify whether the data meets that assumptions of linear regression model thus ensuring that the regression results are accurate and unbiased.

### 4.8.1 Tests of Normality

The normality of the study variables was assessed using the the Shapiro-Wilk test. The Shapiro- Wilk test assesses whether the residuals of these constructs are normally distributed, which is a crucial assumption for multiple regression analysis. A p-value) greater than 0.05 implies that the data does not significantly deviate from a normal distribution, adhering to the normality assumption for subsequent regression analysis.

The findings reveal that all variables meet the normality assumption, as the Shapiro-Wilk p-values are greater than 0.05. Precisely, firm size has a p-value of 0.723, age 0.784, corporate governance 0.815, credit risk management 0.820, and firm 0.812, regulatory factors 0.721 and lending levels 0.812with test statistics ranging from 0.874 to 0.907 across the variables. These findings confirm that the data for all study variables is approximately normally distributed, ensuring that the use of multiple linear regression is appropriate for analysing the relationships between the organizational factors and lending levels that the regression results will be reliable and unbiased.

**Table 4.9 Test of Normality**

Study variables	Shapiro-Wilk		
	Statistic	Df	Sig.
Firm Size	.881	60	.723
Age	.892	60	.784
Corporate governance	.901	60	.815
Credit Risk Management	.907	60	.820
Regulation	.815	60	.721
Lending levels	.874	60	.812

#### 4.8.2 Tests of Multicollinearity

The presence of multicollinearity was determined using the Variance Inflation Factor (VIF) and Tolerance values. multicollinearity is said to be present when predictor variables are highly correlated, which can distort regression output, and is assessed by ensuring VIF values are below 10 and Tolerance values are above 0.1. This test ensures that the predictor variables are unique enough for incorporation in the multiple linear regression analysis to examine their effects on lending levels.

The reveal no significant multicollinearity among the predictor variables, as all VIF values are well below the threshold of 10, ranging from 3.507 (firm size) to 4.071 (age), with a mean VIF of 3.717. On the other hand, tolerance values range from 0.246 (firm size) to 0.285 (Age), all meeting the acceptable threshold of 0.1. These results confirm that the predictor are sufficiently independent of each other, thus the regression model will provide unbiased estimates of their individual impact on lending levels without the challenge of multicollinearity.

**Table 4.10 : Test of Multicollinearity**

<b>Variable</b>	<b>VIF</b>	<b>Tolerance</b>
Firm size	4.071	.246
Age	3.507	.285
Corporate governance	3.807	.263
Credit Risk Management	3.655	.274
Regulation	3.545	.254
Mean VIF	3.717	

#### 4.9 Regression Analysis

Regression analysis was performed to determine the relationship between the dependent and predictor variables. The study aimed to establish the effect of organizational factors on lending levels of DCPs

**Table 4.11: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.688 <sup>a</sup>	.473	.435	.431

a. Predictors: (Constant), Firm size, Age, Corporate governance, Credit risk management

From the results outlined above, the coefficient of determination ( $R^2$ ) value was 0.473. This means that the predictor variables (Firm size, Age Corporate governance, Credit risk management) collectively account for 47.3 % of the variance in lending levels of DCPs. The adjusted R-squared value of 0.463 which adjusts for the number of predictors, reaffirms the model's suitability. Additionally, the low standard error of (0.368) depicts a marginal variation between the predictor and actual data. The findings also suggest that 52.7% of the variation in lending levels of DCPs linked to other factors other than the four organizational factors examined in the investigation namely firm size, age, corporate governance, credit risk management considered in the study.

**Table 4.12: ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	9.351	4	2.338	12.563	.000 <sup>b</sup>
Residual	10.420	56	.186		
Total	19.770	60			

a. Dependent Variable: Lending levels

b. Predictors: (Constant), firm size, age corporate governance, credit risk management

According to the ANOVA results above the p value was 0.00 which is less than 0.05 (threshold) implying that there exists a statistically significant relationship between organizational factors and lending levels. This means that the model is reliable hence the mentioned organizational factors have statistically significant impact on lending levels.

### Coefficients

Regression coefficients show how the individual change in the independent variable influences the dependent variables.

**Table 4.13 Coefficients<sup>a</sup>**

		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.671	.774		3.450	.001
	Firm size	.448	.141	.498	3.183	.002
	Age	.608	.107	.698	5.668	.000
	Corporate governance	.476	.116	.517	4.113	.000
	Credit Risk Management	.200	.086	.344	2.322	.024

a. Dependent Variable: Lending levels

From the above analysis, the regression equation becomes;

$$\text{Hence } Y = 2.671 + 0.448 X_1 + 0.608 X_2 + 0.476 X_3 - 0.200 X_4$$

From the analysis, lending levels will maintain at 2.671 when all factors are kept constant. A unit change in firm size will result to 0.448 statistically significant improvements in lending levels of DCPs, keeping all other factors constant. Similarly, a unit variation in age, keeping all other factors constant will result to a 0.608 positive and statistically significant improvement in lending levels. Additionally, a unit improvement in corporate governance, keeping all furthers constant will increase in lending levels of DCPs by 0.476. Finally, a unit change in credit risk management will trigger 0.200 improvements in lending levels of DCPs keeping all other factors constant.

#### 4.10 Moderating Effect

The study sought to measure the moderating effect of regulatory factors on the relationship between organizational factors and lending levels of DCPs.

**Table 4.14 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724 <sup>a</sup>	.524	.440	.37605

**Table 4.15: ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.951	9	.883	6.247	.000 <sup>b</sup>
	Residual	7.212	51	.141		
	Total	15.163	60			

Including regulatory factors improved the model's explanatory power ( $R^2=0.524$ ), confirming their moderating effect on the relationship between organizational factors and lending levels ( $p<0.05$ ).

These findings highlight the fundamental role of regulatory factors in shaping lending activities among DCPs in Kenya.

**Table 4.16 Moderation Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.473	1.105		3.143	.003
	Size	.424	.141	.435	3.010	.004
	Age	.419	.197	.279	2.131	.038
	Corporate governance	.557	0.255	.449	2.182	.033
	Credit Risk Management	.403	.110	.506	3.656	.001
	Regulation	.299	.097	.402	3.093	.003
	MV1	.683	.159	.439	4.298	.000
	MV2	.148	.318	1.031	.465	.644
	MV3	.371	.141	.348	2.633	.011
	MV4	.421	.074	.496	5.665	.000

a. Dependent Variable: Lending levels

In the model,

MV1-Moderating Variable 1

MV2- Moderating Variable 2

MV3- Moderating Variable 3

MV4 - Moderating Variable 4

The Moderated model becomes;

$$Y = 3.473 + 0.424X_1 + 0.419X_2 + 557X_3 + 403X_4 + 0.229 + 0.683X_1 M + 0.148X_2 M + 0.371X_3 M + 0.421X_4 M + \varepsilon$$

When regulatory factors was introduced into the analysis, the adjusted R-squared increased from 0.435 to 0.44 implying that the introduction of regulatory factors improved the fit of the model by 5 per cent signifying its significant role in strengthening the lending levels of DCPs.. This confirms that regulatory factors exert a moderating effect on the relationship between organizational factors and lending levels ( $p < 0.05$ ). The findings on MV3 show that regulation positively influences the relationship between corporate governance and lending levels. Additionally, for MV4, regulation was found to strengthen the relationship between credit risk management and lending levels. The study supports the idea that regulatory factors don't just influence lending directly but also enhance how organizational characteristics like size and corporate governance and credit risk management impact lending levels of DCPs.

## **CHAPTER FIVE: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter commences by summarizing the key findings. Discussion of the findings is further provided based on the study objectives in relation to previous empirical review. Recommendations based on the conclusions are outlined in the section. Additionally, the limitations, of the study are provided acknowledging the boundaries of the research and potential areas for future exploration.

### **5.2 Summary of Findings**

The study explored the effect of organizational factors on lending levels of Digital Credit Providers in Kenya. Key focus areas included firm size, age, corporate governance and credit risk management. Data was analyzed through descriptive statistics, correlation, regression analysis. The study established that the average age of DCPs is 8.3 years, with the oldest firm being 17 years old and the youngest operating for only one year. In firm size, the average staff size of 98 employees. These firms reported possessing a broad asset base, a steady increase in loan issuance, extensive national market coverage and diverse loan maturity timelines. The overall governance mean score of 4.27 indicates the presence of robust governance structures within the sector. Credit risk management remains a core aspect of digital lending, with DCPs frequently reviewing credit appraisal and monitoring mechanisms. The average credit risk management score of 4.15 signifies that firms place significant emphasis on ensuring financial stability by mitigating risks associated with lending. The findings further show that regulatory frameworks play an essential role in shaping lending levels among DCPs, as depicted by an overall mean of 4.35. The finding also demonstrates a statistically significant relationship between organizational factors and lending levels of DCPs.

### **5.3 Discussion of the Findings**

This study investigated the organizational factors influencing lending levels of digital credit providers in Kenya. Below is the discussion of the findings based on the specific objectives of the study.

#### **5.3.1 Firm Size and Lending Levels**

The descriptive statistics on firm size show that the majority of respondents agree that their organizations possess a broad asset base, experience increasing loan levels, and offer loan products with diverse maturity timelines across the country. These findings align with empirical literature that associates firm size with lending capabilities. For instance, Tipis (2022) found that larger commercial banks in Kenya exhibited better Return on Assets (ROA) compared to smaller banks, suggesting that firm size positively influences lending levels and efficiency. The regression results revealed a statistically significant positive association between firm size and lending levels. This means that organizations with larger asset bases are better positioned to leverage economies of scale, leading to improved capital allocation and increased credit issuance.

These findings agree with Mwangi (2018) and Chalise & Adhikari (2022) who found a positive relationship between size and profitability, which they attributed to economies of scale and enhanced resource access. Similarly, the current study's that a unit change in firm size leads statistically significant improvement in lending levels, are consistent with these past findings such as Shibusse et al. (2019) who demonstrated that firm size significantly affects the lending levels of deposit-taking SACCOs. Walela et al. (2022) suggests that firm size may moderate the relationship between financial uncertainty and firm performance, further supporting the idea that asset base expansion can enhance financial stability emphasizing on the broader role of firm size in shaping financial outcomes, reinforcing the study's findings that firm size significantly influences credit lending by DCPs.

#### **5.3.2 Age and Lending Levels**

The study also established that the average age of DCPs is 8.3 years, with the oldest firm being 17 years old and the youngest operating for only one year. According to the findings, the DCP

sector is characterized by a significant number of relatively young firms, and age exhibits a positive correlation with lending levels. The statistically significant influence of age on lending levels aligns with empirical literature on the impact of firm age on lending capabilities. This include Collier et al. (2016) who examined how firm age and size influence financial risk management in the aftermath of Hurricane Sandy. Their findings suggest that younger firms are more exposed to financial constraints due to their lack of insurance and credit availability, whereas older firms are better equipped to access financing.

Sakai, Uesugi, and Watanabe (2010) further explored how borrowing costs evolve as firms age, using panel data from over 200,000 bank-dependent small firms between 1997 and 2002. Their findings revealed that borrowing costs decrease over time as firms establish their reputation and financial stability. The study emphasized that even when firm size is controlled, borrowing costs remain dependent on firm age, reinforcing the notion that older firms have improved creditworthiness. This supports the current study's finding that firm age positively influences lending levels. Coad, Daunfeldt, and Halvarsson (2014) examined firm age and growth persistence in Sweden and established that while younger firms experience positive growth persistence due to the need to reach a minimum efficient scale, older firms struggle with environmental turbulence and adaptability challenges. This is consistent with the study's findings that firm age plays a role in lending levels, as older firms may have more stable operations and financial credibility.

### **5.3.3 Corporate Governance and Lending Levels**

The findings also indicate that corporate governance significantly influences lending levels among DCPs, as evidenced by a statistically significant positive influence. The study highlights that board members possess strong educational backgrounds, industry experience, and diverse expertise, which contribute to sound lending practices. These findings align with empirical literature, such as Falaye and Krishnan (2017), which suggest that weak corporate governance can lead to excessive risk-taking and financial instability in lending institutions. The current study's findings reinforce these arguments by demonstrating that well-governed DCPs are more likely to implement responsible lending practices, reducing exposure to risky borrowers.

The present study's findings of the study revealed that DCPs prioritize professional expertise, gender inclusivity, and ethnic diversity in leadership structures to streamline loan lending processes. These findings were in tandem with Haron and Aslam (2021), who found that larger, diverse boards enhance financial decision-making through varied perspectives and expertise. However, contrasting views by Jayati & Subrata (2018) and Noguera (2020) suggest that larger boards may hinder decision-making efficiency due to increased agency costs and conflicts of interest. Furthermore, gender diversity has been linked to improved corporate performance, with studies by Rajon et al. (2021) and Ullah et al. (2020) showing that increased female representation on boards enhances decision-making and reduces agency costs. The current study's findings align with this perspective, indicating that DCPs actively promote inclusivity within their leadership structures.

#### **5.3.4 Credit Risk Management and Lending Levels**

The study further revealed that credit risk management plays a critical role in digital lending, with DCPs implementing frequent credit appraisal and monitoring mechanisms, as well as effective debt collection strategies. These findings are in tandem with Vava and Panchal (2022) who emphasize on the importance of credit monitoring and appraisal in mitigating defaults, enabling lenders to assess borrower credibility effectively. Credit risk management was found to have a positive statistically significant correlation and with lending levels. While effective credit risk management is associated with improved loan performance (Steward & Lumont, 2018),

Njenga and Kavindah (2021) found that credit appraisal and debt collection strategies significantly influenced the sustainability of digital lending platforms in Kenya. Their findings align with the current study, which indicates that DCPs emphasize financial stability through risk mitigation measures. Additionally, the findings concur with by Taiwo et al., 2017 that prudent credit management strategies increase the savers and investor's confidence in banks and result to availability of more loans and advances and consequently higher profitability.

## 5.4 Conclusions

The study concludes that firm size significantly influences lending levels among Digital Credit Providers (DCPs). Organizations with a larger asset base, broader market coverage, and an increasing loan issuance capacity are better positioned to leverage economies of scale and optimize capital allocation, thereby enhancing their lending capabilities. This finding aligns with prior empirical research that associates firm size with financial stability and efficiency. The study further highlights that the sector comprises relatively young firms, with an average age of 8.3 years, suggesting a rapidly growing and evolving industry. Firm age was found to have a statistically significant positive effect on lending levels, reinforcing existing literature that older firms tend to have better financial credibility and access to capital, reducing their borrowing costs and enhancing their lending operations.

Corporate governance was noted to have a statistically significant positive effect on lending levels among DCPs. The study highlights that board members exhibit strong educational backgrounds, industry expertise, and diverse leadership structures, which contribute to effective governance and sound financial decision-making. Furthermore, board diversity, in terms of professional expertise, gender inclusivity, and ethnic representation, enhances strategic oversight, ensuring responsible and sustainable lending practices.

Further, credit risk management was noted to have a statistically positive association with lending levels of DCPs. The study also established that credit risk management is a crucial component of digital lending, with DCPs implementing frequent credit appraisal and monitoring mechanisms. Therefore, risk mitigation strategies are essential for ensuring consistent lending by DCPs.

Additionally, the study underscores the critical role of regulatory frameworks in shaping lending levels among DCPs. Regulations were found to promote responsible business conduct, ensure compliance with Central Bank of Kenya (CBK) provisions, and enforce adherence to cybersecurity requirements. These regulatory measures mitigate discriminatory lending practices and enhance fair and ethical lending processes across the digital credit sector.

The study's findings align well with both the Information Asymmetry Theory and the

Resource- Based View (RBV) Theory. From the perspective of Information Asymmetry Theory, the significant influence of organizational factors such as firm age, size, corporate governance, and credit risk management on lending levels reflects how digital credit providers (DCPs) use internal resources and structures to reduce uncertainties in borrower information. By having better governance structures, risk management systems, and institutional maturity, DCPs can mitigate adverse selection and moral hazard which are credit markets thus improving lending decisions. Similarly, the findings align with the RBV Theory as they demonstrate how the unique, internal resources of DCPs such as firm size (tangible asset base), age (experience), governance quality (leadership), and risk management systems serve as strategic assets that enhance lending performance of DCPs.

## **5.5 Recommendations**

To enhance firm size, digital credit providers should focus on increasing their asset base, broadening their market reach, and diversifying loan products. This can be achieved through strategic partnerships with banks and fintech companies, enabling access to more capital and operational support. Additionally, firms robust systems and software such as AI based credit scoring to streamline loan processing, enable real time credit monitoring, improve customer accessibility and reduce default risks.

The study also highlights the importance of firm age, with older DCPs exhibiting better financial credibility and stability, which enhances their lending levels. Newer firms should adopt best practices from established market players, including robust risk management frameworks and long-term financing strategies. Additionally, younger firms should prioritize customer trust- building initiatives, such as ethical business practices and clear lending policies to solidify their position in the market and support sustainable growth.

Corporate governance significantly influences the effectiveness and sustainability of digital lending. Strong governance structures, including professional expertise, board diversity and strategic oversight, contribute to sound financial decision-making and ethical lending practices. To further strengthen governance, DCPs should ensure their boards comprise individuals with varied industry experience, financial acumen, and regulatory knowledge. Moreover, continuous capacity-building programs for board members and management teams

can help improve governance standards and align business strategies with regulatory expectations.

Credit risk management was found to be a statistically significant and fundamental aspect of digital credit lending of DCPs. DCPs should continue refining their credit risk management strategies by leveraging data-driven credit scoring models and artificial intelligence for borrower assessment. Proactive credit monitoring, robust loan recovery mechanisms, and predictive analytics can help minimize default rates without unnecessarily restricting lending activities.

Additionally, regulatory compliance should remain a priority, with firms aligning their risk management policies with CBK guidelines to promote responsible lending and long-term financial stability. DCPs should also align with consumer protection policies and frequently engage with regulatory bodies and industry associations can help firms stay informed on policy changes and ensure sustainable lending practice.

## **5.6 Limitations of the Study**

Various limitations were encountered in the study which may influence the generalization of the findings. Firstly, the study primarily relied on self-reported data from DCPs, which may be biased. Additionally, the respondents may have overestimated or underestimated certain aspects of their age, firm's size, credit risk and corporate governance to align with perceived industry standards. Additionally, while the study captured a broad sample of digital credit providers, variations in data accuracy and subjective interpretations of lending levels could limit the generalizability of the findings.

The study was also conducted within a specific economic and regulatory context, focusing on DCPs operating in Kenya hence the findings may only be applicable to Kenyan digital lending landscape and may not be directly applicable to other markets with different regulatory frameworks, demographic structure or consumer lending behaviors. Future research could expand the geographical scope to enhance external validity.

Lastly, the cross-sectional design was utilized in the study which captures data at a specific point in time, limiting its ability to establish causal relationships between organizational

factors and lending levels. While the findings indicate associations between firm size, age, governance, and credit risk management with lending levels, they do not conclusively determine cause-and-effect relationships. Future studies may consider the longitudinal approach tracking changes over time could provide deeper insights into how these factors evolve and influence lending levels of DCPs in the long-run.

### **5.7 Suggestions for Further Research**

Future research could employ more advanced econometric techniques such as factor analysis or qualitative methods to overcome the limitations of the current study and provide deeper insights into the relationships between organizational factors and ending levels of DCPs. Qualitative research methods, such as interviews or case studies, could complement quantitative analyses by providing rich contextual insights into the factors influencing lending levels of DCPs such as competition from other players such as SACCOs and commercial banks.

Comparing the lending levels and firm-specific factors across different types of DCPs could provide important insights into the determinants of success within the sector and help identify best practices for lending. Another area for further research is the role of financial inclusion in digital lending. Investigating how DCPs contribute to access to credit for underserved populations, including low-income borrowers and small businesses, would be valuable.

Future research may also examine the nexus between regulatory frameworks and innovation in digital lending since while regulations ensure responsible lending, they may also limit the growth and innovation of DCPs. An investigation on how policy interventions, such as consumer protection measures and interest rate caps influence lending behavior would be of relevance.

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## APPENDICES

### Appendix i: Research Approval Letter

Ole Sangale Rd, Madaraka Estate,  
P.O Box 59857 00200, Nairobi, Kenya.  
Cell: +254 703 414/6/7, Twitter: @SBSKenya  
Email: info@sbs.ac.ke or visit www.sbs.strathmore.edu



14<sup>th</sup> January 2025

To Whom It May Concern,

**RE: FACILITATION OF RESEARCH – KEMBOI RUTH JEPTUM**

This is to introduce Kemboi, Ruth Jeptum who is a Master of Commerce (MCOM) Student at Strathmore University Business School, admission number MCOM/ 149562/22. As part of our MCOM Programme, Ruth is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MCOM course. To this effect, Ruth would like to request appropriate data from your organization.

Ruth is undertaking a research paper on “**Organizational Factors, Regulation and Lending Levels by Digital Credit Providers in Kenya.**” The information obtained shall be treated confidentially and shall be used for academic purposes only.

Our MCOM Programme seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Njoki Kiagiri".

Njoki Kiagiri  
Manager – Graduate Programmes  
Strathmore University Business School.

## Appendix ii: Ethics Approval



25<sup>th</sup> March 2025

Mrs Kemboi Ruth,  
ruth.kemboi@strathmore.edu

Dear Mrs Kemboi,

**RE: Organizational Factors, Regulatory Factors, and Lending Levels by Digital Credit Providers in Kenya**

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC2612/25**. The approval period is from **25<sup>th</sup> March 2025 to 24<sup>th</sup> March 2026**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.


Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Ambrose Rachier".


**Mr Ambrose Rachier,  
Chairperson; SU-ISERC**

**Appendix iii: NACOSTI research Permit**


  
**NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION**

**Date of Issue: 27/February/2025**

**RESEARCH LICENSE**



**This is to Certify that Ms. Ruth Jeptum Kembol of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: ORGANIZATIONAL FACTORS, REGULATORY FACTORS AND LENDING LEVELS BY DIGITAL CREDIT PROVIDERS IN KENYA for the period ending : 27/February/2026.**

**License No: NACOSTI/P/25/416304**


**Applicant Identification Number**

**209267**

**Director General**

**NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION**

**Verification QR Code**



**NOTE: This is a computer generated License, To verify the authenticity of this document, Scan the QR Code using QR scanner application.**

**See overleaf for conditions**

Appendix iv: Letter of Introduction

Dear Sir / Madam

My name is Ruth Kemboi and I am a masters' student at Strathmore Business School. As part of my academic program, I am conducting a study on the **Influence of Organizational and Regulatory Factors on Lending Levels by Digital Service Providers (DCPs)**

You have been identified as a potential respondent in this research. Please respond to all questions, to the best of your understanding.

Your participation in filling this questionnaire is voluntarily. You are free to exit at any stage of the questionnaire filling process in case you feel not to continue with the process. Your responses will be COMPLETELY CONFIDENTIAL and only used for academic purposes. Your participation in answering these questions is highly appreciated. If you have any questions or comments about this survey, you may contact the undersigned.

Thank you for your support  
and cooperation. Yours  
Faithfully,

Ruth Kemboi

**Appendix v: Questionnaire Instructions**

Kindly complete the following questionnaire using the instruments provided for each set of questions. Please tick appropriately or write your answers in the spaces provided.

**Confidentiality**

All information given shall be treated with strict confidence. No reference will be made to any individual(s) or organization in the report of the study.

**SECTION A: Demographic Information**

Complete the questionnaire by writing your answer in the spaces provided

- 1. What is your position in the Organization

.....

- 2. For how long have you been serving in the position.....

**SECTION B: Organizational Details**

- 1. Indicate the duration in years in which the organization has been in existence since establishment?.....

- 2. Indicate the extent to which you agree with the following statements with regards to board diversity in the organization (1-Strongly disagree, 2-Disagree, 3-Moderate, 4-Agree, 5-Strongly Agree)

	1	2	3	4	5
There is equal gender inclusivity in the board					
Board members are highly experienced					
The ethnic balance in the board is fair					
The board members possess high professional experience					
Board members are well educated					

Explain any other factor related to board diversity not covered above as applicable to your

organization.....

.....

.....

.....

.....

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.....

.....

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.....

3. In terms of firm Size, what is the current number of employees?.....

4.To further evaluate the firm size, how would you rate the following statements (1-Strongly disagree, 2-Disagree, 3-Moderate, 4-Agree, 5-Strongly Agree)

	1	2	3	4	5
The firm has a broad asset base					
The number of active loans to customers have been on the rise over the last one year					
The firm's market share covers the entire country					
The company offers loans with both shorter maturity and long maturity timelines					

4. Rank the preparedness of the organization in responding to the following credit risk issues (1-Not at all, 2- Small extent, 3-Moderate extent, 4- large extent, 5-Very large extent)

<b>Credit Risk Management</b>	1	2	3	4	5
Measures to contain the default rate of borrowers					
Review of credit monitoring and appraisal measures					
Efficacy of debt collection strategies					
Exposure to credit risk					

Highlight any other credit risk factor.....  
.....  
.....  
.....  
.....

**SECTION C: Regulatory Factors**

b) The following statements relate regulation in the digital lending sector. Rate the extent to which you agree with the statements in a five-point Likert scale of 1- Not at small, 2- Small Extent, 3- Moderate Extent, 4-Large Extent, 5-Very Large Extent.

<b>Regulatory Factors</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Regulations relating to sharing credit information and data protection exist					
The regulatory framework provides that the business conducts itself as a responsible entity					
The business is compelled by the CBK to comply with lending provisions in the country					
The business adheres to regulatory requirements for cushioning against cybersecurity					
The existence of a regulatory framework has helped the business to curtail vices such as discrimination in lending					

**SECTION D: Lending Levels**

1. What is the estimated amount of loans in Ksh issued since establishment?.....

2. Other lending levels measures

The statements provided below seek to measure the lending levels by Digital Credit Providers. Tick the appropriate box as may applicable to your organization using the scale provided below;

Where 1=Strongly Disagree, 2= Disagree, 3= Neutral, 4=Agree, 5= Strongly Agree

	1	2	3	4	5
The frequency of loan requests is unlimited as long as the previous loan is fully settled					
The firm’s number of loanees has been increasing gradually on an annual basis					
The business offers individual loans					
The business offers group loans which are of a higher amount to support business services					
The firm’s market share covers the entire country					

## **Appendix VI: List of Digital Credit Providers**

1. Ambush Capital Limited trading under FlashPesa
2. Anjoy Credit Limited
3. Asante FS East Africa Limited
4. Autochek Limited
5. Azura Credit Limited
6. Bytech Credit Limited
7. Ceres Tech Limited
8. Chapeo Capital Limited
9. Chime Capital Limited
10. Colkos Enterprises Limited
11. Creditarea Capital Limited
12. Decimal Capital Limited
13. Dexintec Kenya Limited
14. Dime Credit Limited
15. Dreamlife Technology Limited
16. ED Partners Africa Limited
17. EDOMX Limited
18. Ellegant Credit Limited
19. Extend Money Services Limited
20. Factorhouse Limited
21. Fahari Point Capital Limited
22. Fezotech Kenya Limited
23. Fincorp Credit Limited
24. Fortune Credit Limited
25. Fourth Generation Capital Limited
26. Getcash Capital Limited
27. Giando Africa Limited (Trading as Flash Credit Africa)
28. Hela Capital Limited
29. Inventure Mobile Limited (Trading as Tala)
30. Inspire Credit Limited
31. Ismuk Credit Limited
32. Jijenge Credit Limited
33. Jumo Kenya Limited
34. Kweli Smart Solutions Limited

35. Lenana Innovative Solutions Limited
36. Letshego Kenya Ltd
37. Lipa Later Limited
38. Little Pesa Limited
39. Lobelitec Credit Limited
40. LockBx Limited
41. Maralal Ledger Limited
42. Marble Capital Solutions Limited
43. MCF 2 Kenya Limited
44. Mint Credit Limited
45. MFS Technologies Limited
46. MKM Capital Limited
47. M-Kopa Loan Kenya Limited
48. Mogo Auto Limited
49. Momentum Credit Limited
50. Mwanzo Credit Limited
51. Mycredit Limited
52. MyWagepay Limited
53. Natal Tech Limited
54. Ngao Credit Limited
55. ODI Credit Limited
56. Okolea International Limited
57. Opal Quick Limited
58. Payablu Credit Limited
59. Pesaglow Capital Limited
60. Pesakuu Credit Limited
61. Pezesha Africa Limited
62. Phoenix Capital Limited
63. Pi Capital Limited
64. Premier Credit Limited
65. Puphik Credit Limited
66. Progressive Credit Limited
67. Radi Credit Limited
68. Rewot Ciro Limited
69. Risine Credit Limited
70. Senti Capital Limited
71. Sevi Innovation Limited
72. Simplepay Capital Limited
73. Siti Mobility Technologies Limited
74. Sokohela Limited
75. Sure Cred Capital Limited
76. Stride Credit Limited
77. Tanir Credit & Accounting Services Limited
78. Tenakata Enterprises Limited
79. Tip-Point Capital Limited
80. Treasure Store Limited
81. UbaPesa Limited
82. Umoja Fanisi Limited

83. Zanifu Limited
84. Zenka Digital Limited
85. Zillions Credit Limited