Analysis of Business Growth Strategies on Performance of Financial Digital Lenders in Kenya.

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ABSTRACT
Businesses all over the world make critical resolutions on how to improve or maintain their performance to a sustainable level. To achieve this desired performance, most of these businesses make use of growth strategies in different ways and the results achieved vary from one organization to another and from one industry to another. Therefore the particular purpose of this research will be to analyze the influence of growth strategies on the performance of financial digital lenders in Kenya. The objective of this study was to establish the influence of the new market penetration strategy on the performance of financial digital lenders, to find out the influence of market development strategy on the performance of financial digital lenders, to determine the influence of product development strategy on the performance of financial digital lenders, and to establish the influence of diversification strategy on the performance of financial digital lenders in Kenya. This research used a mixed methodology and a descriptive research design since it was the best way of gathering knowledge from respondents through the appliance of questionnaires.
Keywords: Growth strategy, Organization performance, digital lenders

Introduction

The developed countries like China, India, Canada, and other South American countries are widely using digital lending platforms. These platforms have not only benefited their user but also in the process of offering this service, the lenders have engaged growth strategies to manage or hedge their operations against unforeseen challenges or improve their performance. China is ranked first in the world in digital lending and has been enabled by its robust cutting-edge analytic financial innovations. According to (International Finance Corporation, 2017), Fintech companies in China have over 450 million clients which have resulted in these companies engaging in growth strategies through obtaining financial licenses and others seeking partnerships with banks to positively influence their performance. According to (Kshetri, 2016) in the year 2015, it was reported that China had 5.4 billion outstanding payments on digital loan cards issued. Companies are now developing new products to hedge their business from the losses currently being experienced on outstanding loans.

India on the other hand, where there is a world-class technology industry, digital lending innovative companies were allowed by their regulation of 2014 to compete with banks (Romānova & Kudinska, 2016). These companies have been backed by their government support for the digital identification of Indian citizens which is linked to their bank accounts. This has seen the development strategies like live payment bank, creation of digital invoice finance platforms and peers to peer lending, and digital lending specifically for SMEs. Some of the Indian digital lenders have partnered with other data analytic innovators as a strategy to edge on their business performance.

According to (Shipalana, 2019) Analysis of South Africa's financial digital services (FDS) landscape which determined that Fintech companies have revolutionized the financial sector of the country. These innovative ideas have spiked financial services to P-P lending, and C-B lending and have also led to the establishment of the Fintech Unit by the South Africa Reserve Bank to monitor its effects on traditional banks. (Coetzee, 2018) determined that financial technology disruption in South Africa precedes an opportunity for Banks and investors to move from brick and mortar to digital strategy to compete with the aggressive digital solution providers.

In Kenya since the launch of M-PESA in 2007, Kenyan mobile phone money transactions became a new paradigm in the operations of the digital financial services which has led to the development of growth strategies aimed at lowering the transaction costs of clients and also allowed many clients to access financial services (Oluoch, 2012). This innovation has propagated the rapid growth of the digital credit market in Kenya. It is estimated that there are over 45 digital lenders in Kenya offering services like B-C lending, C-B lending, Solar credit financing, household asset financing, mobile phone airtime credit, and prepaid electricity bill credit. According to (Gwer, Odero & Totolo, 2019) research on digital lending, firms in this industry should be regulated without inhibiting innovation but simultaneously providing new approaches to problems faced by the customers as the services continue to grow. This is a true indication that there is a problem in the industry thus firms need to have effective and efficient growth strategies to maintain and improve their performance in case of any changes.

Problem Statement.

Effective and efficient enactment of growth strategies enables organizations to influence their performance goals which are to increase their sustainability and profitability in the industry. (Igunza, 2018), estimates that there are over 45 digital lenders actively operating in Kenya by the year 2018 which is increasing annually. This raises the bar of competitiveness of the players for them to remain profitable and sustain their operations. According to (Kamau, 2019) in Kenya, around 108 million mobile loan applications occur every year and it is estimated that 1.8% of these loans are fraudulent which equates to 1.9 million thus indicating a very serious problem of money loss by digital lenders. Every digital lending player's biggest challenge is to distinguish who is a genuine borrower or not. In Kenya, it is estimated that there are over 28.3 million mobile users and within them, over 6 million can access the technology required to get digital loans within seconds. Amongst the 6 million borrowers 2.5 million borrowers are reported to have been listed on CRB as digital loan defaulters. This clearly indicates that there is a high default rate on these digital platforms which therefore affects their financial performance.

Due to the ease of credit access through digital platforms, many loopholes in loan qualification assessment and identity theft, and the high-interest rates charged by digital lenders, (purity & Protus 2018) recommended the development of sound regulations that provide solutions to the challenges faced by the customers. (ALUSHULA, 2019) indicated Kenyans are struggling with over-in debt to repay multiple loans from different digital lenders. According to (Totolo & Gubbins, 2018) digital lending sector should be regulated the same way lending through banks and SACCOs are, this is in the application of the consumer protection principle that indicates similar products should be regulated similarly. This is to the concern expressed that high interest charged by digital lenders while lending interest rates for banks were capped through regulation in 2016. The low bar of consumer protection on cyber security issues and identity theft, high-interest rates, and the ease of entry to the industry has not only left Kenyans struggling with the high burden of settling multiple digital loans (ALUSHULA, 2019) but also this has left the digital lending institution garbling with a question of how to mitigate these challenges and at the same time how they can improve their performance.

Objectives of the Study

i. To establish influence of market penetration strategy on the performance of financial digital lenders in Kenya.
ii. To find out the influence of market development strategy on the performance of financial digital lenders in Kenya.
iii. To determine the influence of product development strategy on the performance of financial digital lenders in Kenya.
iv. To establish the influence of diversification strategy on the performance of financial digital lenders in Kenya.

Research Methodology

The study used the mixed methodology to collect information through quality research tools. The researcher utilized this approach to measure and compare financial digital lenders' performance. According to (Schoonenboom & Johnson, 2017) mixed methodology is useful when integrating or comparing, and bringing together two (or more) components.

Target Population

According to the Digital Lenders Association of Kenya, only 16 companies have registered with them as financial digital lenders in Kenya all with a total of 91 managers. Therefore, the target population for this study was 91 managers working for the 16 financial digital lenders. Since the population was too small the researcher employed census to obtain information from the respondents of the study. According to (Creswell, 2018) the consideration of all components within the testing framework or populace the survey is a census analysis.

Research Instruments

Data was using a structured questionnaire. The questionnaire was prepared to get information using a 5-point Likert scale as suggested by (Upagade & Shende, 2012). The Likert scale includes actions that direct in adjusting contextual data into numerical information.

Response Rate.

The total number of questionnaires administered to the respondents was 91. Out of 91 questionnaires 79 were properly filled and returned, which represent a response rate of 87% as shown in Figure 3. As per (Denscombe, 2014), a response rate of 50% or more is acceptable. The high percentage rate implies that outcome can be generalized to the whole population and is a good representative of the target population.

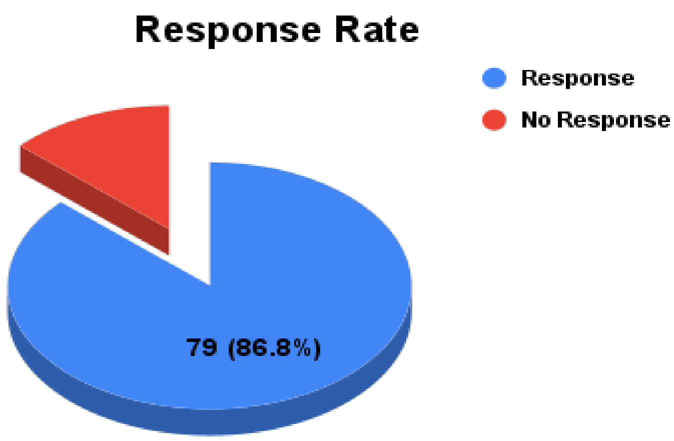

Figure 1: Response rate
Source: Field Data (2022)

Gender of the Respondents.

According to figure 2, the male management employees outnumbered the female by a margin of 57.0% to 43.0%. This indicates that the biggest chunk of management personnel in financial digital lenders in Kenya is men.

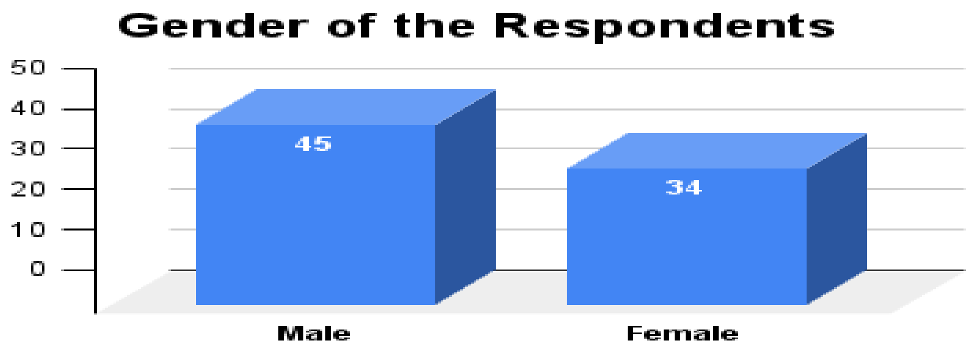

Figure 2: Gender of the Respondents
Source: Field Data (2022)

Descriptive Statistics

The first objective of the study was to establish the influence of market penetration strategy on the performance of financial digital lenders in Kenya. Table 1 indicates that respondents agreed that digital lenders gained 30% more customers after carrying out an augmented promotion. (M =4.004; SD = 0.743), they agreed that digital lenders' continuous study on customer behavior led to over 20% increase of new customers (M = 3.113; SD = 1.032). They also agreed that digital lenders increased promotion activities in that financial year. (M=4.021; SD = 0.876). Participants disagreed that digital lenders employees willingly gave new market ideas which led to 30% customer gain (M = 2.347; SD = 1.182). They also disagreed that through adjusting their prices they gained 30% more customers (M = 2.561; SD= 0.734), they disagreed that new ventures into new markets increased revenues (M = 2.901; SD = 1.254). These outcomes showed that the market penetration strategy had a modest impact on the performance of digital lenders in Kenya (M = 3.66; SD =0.661).

Table 1: Market Penetration Strategy

	N	Mean	Std. Deviation
Our firm's employees willingly give new market ideas which have gained us more customers by 30%.	79	2.347	1.182
We have gained 30% more customers after adjusting our prices.	79	2.561	0.734
Our new ventures into new markets has increased our revenues.	79	2.901	1.254
Our firm's continuous study on customer behavior has led to over 20% increase of new customers.	79	3.113	1.032
We have gained 30% more customers after carrying out an augmented promotion.	79	4.004	0.743
We have increased our promotion activities in this financial year.	79	4.021	0.876
Aggregate		2.658	0.967

Source: Field Data (2022)

The second objective of the study was to find out the influence of market development strategy on the performance of financial digital lenders in Kenya. Table 2 indicates that respondent strongly agreed with the assertion that digital lenders realized more income after their employees spent more time in research and develop of new services (M =4.156; SD = 1.179), they also agreed that they received over 80% five star rating on Google after improving their current products (M = 3.325; SD = 1.161), they also agreed that launching our new product generated them more profits or less losses (M = 3.016; SD = 0.991). They agreed that the new products launched had been rated over 4 stars by new customers (M =2.726; SD = 1.179). They disagreed that digital lenders in Kenya Product development strategy was more customer-concentric than making profits. (M = 2.321; SD = 0.997). These outcomes showed there was neutral influence of product development strategy on the performance of digital lenders in Kenya (M = 3.109; SD =1.101).

Table 2: Product Development Strategy

	N	Mean	Std. Deviation
We have realized more income after our employees spent more time in research to develop new services.	79	4.156	1.179
We have received over 80% five star rating on Google after improving the current products.	79	3.325	1.161
The new products have been rated over 4 stars by new customers after three months since its launch.	79	3.016	0.991
We are generating more profits or less losses after launching our new product.	79	2.726	1.179
Our company's Product development strategy is more customer-concentric than making profits.	79	2.321	0.997
Aggregate		3.109	1.101

Source: Field Data (2022)

The third objective of the study was to determine the influence of product development strategy on the performance of financial digital lenders in Kenya. Table 3 indicates that respondents strongly agreed with the assertion that they won more new ventures that financial year (M = 4.507; SD =0.987), they also agreed that venturing into new markets gained them more profits after (M =4.298; SD = 1.112). They agreed that promotions to new areas increased profits (M = 3.316; SD = 1.075). They agreed that branding led to a 4 star rating of their services (M = 3.037; SD =0.961). They disagreed that partnerships and strategic alliances increased their staff engagement 20% (M =2.421; SD =1.163). These outcomes showed that market development strategy had modest influence on performance of financial digital lenders in Kenya (M = 3.516; SD =1.060).

Table 3: Market Development Strategy

	N	Mean	Std. Deviation
We have won more new ventures this financial year.	79	4.507	0.987
We have gained more profits after venturing into new markets.	79	4.298	1.112
We have received over 4 star ratings after branding.	79	3.037	0.961
We have increased our profits after undertaking more promotions to new areas.	79	3.316	1.075
We have increased our staff by 20 % after engaging in partnerships and strategic alliances	79	2.421	1.163
Aggregate		3.516	1.060

Source: Field Data (2022)

The fourth objective of the study was to establish the influence of diversification strategy on the performance of financial digital lenders in Kenya. Table 4 indicates that respondents strongly agreed with the assertion that digital lenders put the value of their clients at core (M= 4.923; SD=0.743). They strongly agreed that consistency in adopting new technology helped them to reach new markets (M= 4.673; SD= 0.608). They also strongly agreed that digital lenders considered the input of their client's feedback (M= 4.632; SD= 0.912), they agreed that consistency in adopting new technology helped them acquire new customers (M= 4.036; SD= 0.513). They were neutral on the fact that digital lenders provided a range of services to their clients (M= 3.014; SD= 1.031). These outcomes showed that diversification strategies had a high influence on performance of financial digital lenders in Kenya (M = 4.256; SD =0.761).

Table 4: Diversification Strategy

	N	Mean	Std. Deviation
Our firm provides a range of services to clients	79	3.014	1.031
Our firm considers the input of the client's feedback.	79	4.632	0.912
We put the value to our clients at the core.	79	4.923	0.743
Our consistency in adopting new technology has helped us to reach new markets.	79	4.673	0.608
Our consistency in adopting new technology has helped us to acquire new customers.	79	4.036	0.513
Aggregate		4.256	0.761

Source: Field Data (2022)

Conclusion

Most notably, the research parameters have a cumulative and significant impact on the performance of financial digital lenders in Kenya. In terms of the relationship between market development strategies and performance, the study concluded that it is dependent on effective communication skills, the quality of our products and services, in-depth market engagement as a key to increased market development, increasing the size of our products, effective leadership, and a focus on product and service packaging modification. Similarly, market penetration strategies have been concluded to be based on favorable commodity prices, vibrant promotional activities, the required resource capabilities, proper business environment scanning, engaging in targeted promotional activities, and ensuring product prices are highly competitive.

The findings also indicate that diversifying into new products, incentivizing the pooling of organizational resources, offering differentiated products to customers, sticking to the firm's core business, providing new and unrelated products and services to customers, and adding new products to complement existing products are all productive elements that promote a culture of diversification. Furthermore, product development strategies have been found to thrive on the basis of product redesigning, advancements in manufacturing technology, regular employee training, continuous quality improvement, investment in research and development, and enhancements to our operational processes and systems.

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