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Dynamic Capabilities Frameworks on Competitiveness of Payment Service Provider Firms in Kenya

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Abstract

Dynamic Capabilities Frameworks are an important tool that can be used by organizations to build, integrate, and reconfigure the internal and external capabilities of an organization, enabling it to cope with a rapidly changing competitive business environment. The frameworks emphasize strategic management practices that allow firms to adapt, innovate, and sustain competitiveness in dynamic markets. This study sought to investigate the influence that dynamic capabilities frameworks have on the competitiveness of Payment Service Provider (PSP) firms in Kenya. Mixed-method research was used, and both primary and secondary data. The target population was all employees working in 35 PSPs operating in Nairobi, with the sampling size being 140 participants, selected through purposive sampling, while secondary data included annual reports and relevant literature. SPSS version 23 was used for data analysis, with descriptive and inferential statistics used to show the relationship between leadership capabilities and competitiveness of PSPs. The results showed a positive and significant relationship between dynamic capabilities and competitiveness. Positive and significant correlation coefficients were evident for leadership capabilities ($r = .890$, $p = 0.000$; $\beta = 0.69$, $p = .000$). The results supported the conclusion that the leadership capabilities of Kenyan PSP have a positive effect on their competitiveness.

Key words: Dynamic Capabilities, Payment Service Provider, Competitiveness, and FinTech

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Introduction

Technology, specifically innovations in Financial Technology (FinTech), has progressively become a game changer in the financial sector, thus, the evolution of Payment Service Providers (PSPs) Firms worldwide. According to Skan et al. (2016), since 2010, more than 2500 PSPs have been invented worldwide (Africa, 2024), redefining how people save, invest, send, spend, borrow, receive, and protect their money. These advances in the financial sector have significantly challenged the traditional financial structures and created efficiency gains by opening the financial services value chain. Cooper et al. (2018) noted that the rise of PSP platforms in Kenya has been catalyzed by the increased penetration of internet services coupled with the success exhibited by mobile banking, particularly M-Pesa. The invention of M-Pesa has enabled easier and more convenient financial transactions without necessarily having a bank account or having to physically travel to the banks to be served.

According to Robb & Vilakazi (2021), the Kenyan mobile money market has established itself as the most developed in Africa, with more than 30 million subscribers, according to the Communication Authority of Kenya. Even though the Kenyan PSPs sector is highly concentrated, Safaricom's M-Pesa is the most dominant. Interestingly, M-Pesa is becoming more popular over time, with the market share expected to hit a high of 95% by 2027 (Kodongo, 2023). The rise of M-Pesa and other PSP platforms has led to an increase in financial inclusion among consumers who lack bank services, changing the trend of undertakings of the traditional banking systems (Mugo, 2023). Robb & Vilakazi (2021) highlighted the important role leadership capabilities have played in enhancing the performance of PSPs such as Safaricom. According to Robb & Vilakazi (2021), leadership capabilities have enabled PSP firms to anticipate customer needs, establish strategic partnerships, and influence regulatory frameworks that shape the Fintech sector.

Statement of the Problem

Despite the contribution of Payment Service Providers in promoting economic growth and financial inclusion, studies show that the competitiveness of PSPs is on a decline (CBK, 2023). Safaricom PLC dominates the Kenyan market with an over 90% market share (Kodongo, 2023), while smaller PSPs collectively hold less than 10% (Robb & Vilakazi, 2021). Different scholars have provided crucial statistics on the competitiveness trends of PSPs concerning market share growth, customer satisfaction index, brand loyalty, and cost efficiency. According to the Kenya Bankers Association (KBA, 2024), there has been a significant shift in market share growth due to a change in customer allegiance. KBA reported that 47.3% of its respondents cited poor service as the primary factor causing shifts in customer allegiance. This shift was also evident in 2024, when Safaricom's M-Pesa recorded a decline in market share from 93.4% to 92.3% (Tulisha, 2025).

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Communication Authority of Kenya report (2023) shows that the Customer satisfaction index has been inconsistent due to factors such as inconvenient digital platforms (highlighted by 32.8% of the customers), long waiting time (highlighted by 30.1% of the customers), and security concerns (highlighted by 29% of the customers) (Communications Authority of Kenya, 2023). According to the Communication Authority of Kenya (2024), such shortcomings have tangible effects on clientele acquisition and retention. For instance, Telkom Kenya experienced a significant pull-down of clientele from 73% to 54.8% (Communication Authority of Kenya, 2024). According to Kajilwa (2023), the Net Promoter Score (NPS), a measure of brand loyalty dropped from 77.6% (2021) to 55.8% in 2022, only 36.7% of PSP customers have remained loyal to a single PSP, while 49.5% have accounts with multiple PSPs. This shows that PSP customers are still exploring alternatives, which poses a significant challenge to establishing strong brand loyalty among PSPs (Kodongo, 2023; Robb & Vilakazi, 2021).

Thus, with the competitiveness of PSPs exhibiting a general decline, it was imperative to carry out a study highlighting how Dynamic Capability, specifically leadership capabilities, influence the competitiveness of PSP firms in Kenya in relation to the key aspects of competitiveness which include market share growth, customer satisfaction index, brand loyalty, and cost efficiency. Hence, the study addressed this gap by examining the extent to which these variables contribute to the competitiveness of PSP Firms in Kenya.

LITERATURE REVIEW

This study looked at the Transformational Leadership Theory (TLT) which played a very important role in understanding and conceptualizing the connection between dynamic capabilities frameworks and the competitiveness of PSPs in Kenya. The transformational leadership theory was established by Burns (Bass, 1985; 1998) with its primary premise being the ability of a leader to motivate the followers to be able to achieve more than what they had planned to achieve (Krishnan, 2005). Since its development, this theory has been associated with enhancing personal outcomes (Hatter & Bass, 1988; Barling, Moutinho, & Kelloway, 1998; Kirkpatrick & Locke, 1996), of the employee/follower and organizational outcome. According to Hatter & Bass (1988), transformational leadership has a significant impact on the commitment of the employee towards realizing organizational change. This has made this theory a very significant tool in establishing human development capabilities that are needed in all organizations. In understanding the significance of transformational leadership, Aarons (2006) argued that transformational leadership has, for a long time, been associated with enhanced organizational and employee performance. Al-Jubour (2023) stated that a transformational leader enjoys a high level of charisma, and his capacity to influence and motivate workers leads

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to the ease of proper training and development of human resources. In line with this, modern organizations are replacing the traditional leadership styles that are preventing these organizations from achieving training and human resource development (Givens, 2008).

Several empirical studies have explored the connection between various leadership capabilities and organizational competitiveness. Gachira & Ntara (2024) investigated the effect of transformational leadership on organizational performance among the top 100 SMEs in Nairobi, Kenya. Using a descriptive survey approach, the researchers targeted 91 senior staff and managers, ultimately gathering data from 74 participants through purposive sampling. Structured questionnaires served as the primary data collection tool, with data analysis performed using SPSS, incorporating both inferential and descriptive statistics. The study revealed a strong positive correlation between various elements of transformational leadership-inspirational motivation ($r = 0.709$), intellectual stimulation ($r = 0.706$), idealized influence ($r = 0.783$), and individualized consideration ($r = 0.890$) - and organizational performance. The regression model confirmed the significant impact of these leadership capabilities, with idealized influence exhibiting the highest effect ($\beta = 0.769$, $p < 0.001$). However, the study did not assess the influence of leadership capabilities on competitiveness, leaving a gap in understanding their role in sustaining PSP firms' market position. Addressing this gap will enhance insights into leadership-driven competitiveness.

Ahmad, Kadzrina, & Yen (2018) did a study titled The effects of strategic leadership styles on the performance of SME firms in Turkey, aiming to explore how leadership styles impact business performance. In the study, they adopted a descriptive research design, targeting SME firms in Turkey, with the sample being selected through a stratified random sampling method. In the study, primary data was collected using structured questionnaires that focused on two leadership dimensions –vision casting and effective communication. Data was analyzed using correlation and regression techniques to determine the relationship between leadership styles and firm performance. The results showed that relationship-oriented and transformational leadership styles had a significant positive correlation with firm performance-casting and effective communication. However, the study had notable limitations, as it focused solely on leadership styles and failed to assess other strategic leadership aspects such as resource monitoring, strategic decision-making, and their impact on business growth. Furthermore, the study was geographically limited to SMEs in Turkey, highlighting the need for further research across different industries and countries.

RESEARCH METHODOLOGY

The study adopted a descriptive research design. Targeted population being 35 registered PSP firms operating in Kenya, as provided by the CBK

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(CBK, 2023). The population comprised all employees working in the 35 PSP firms. The sample frame was made up of managerial staff (from operations, technology, human resources, and the marketing department) from the targeted 35 PSPs, specifically managers from the four departments selected from each PSP resulting to 140 participants. The major data collection tools in this study were structured questionnaires and secondary data collection sheets. Once the questionnaires were filled and collected, they were checked to ensure completeness. Qualitative and quantitative data analysis techniques were used in data analysis. A composite index was generated for each of the dependent variables. The regression model used being; Y= a+bX1 +e

Where; Y= Composite index of competitive advantage, X1= Leadership Capabilities, b= regression coefficient and e= Error term.

RESULTS AND DISCUSSIONS

The participant response rate was first presented to establish the reliability of the data. Then, important demographic characteristics were detailed, including education, number of employees, years of operation, and categories of the surveyed payment services providers. Results of linearity tests, the homoscedasticity test based on the Breusch-Pagan test, and the Normality of residual tests were presented to ensure regression model validity and reliability. The findings indicated the questionnaire was reliable, with Cronbach's Alpha scores exceeding 0.7 for every construct (leadership capabilities = 0.82), meaning there was strong internal consistency. The results showed that respondents, on average, perceive leadership capabilities to have a moderately strong influence on strategic decision-making in PSP firms in Kenya (M = 3.57, SD = 0.901). The results indicate that leadership capabilities are potential drivers of competitiveness for PSPs operating in the Kenyan market. The results align with observations that were made by Gachira and Ntara (2024). That is, there is a strong a positive correlation between transformational leadership and the performance of an organization. A specific finding revealed that intellectual stimulation strongly influenced a firm’s competitiveness.

The average mean for the survey constructs ranged 3.57 and 3.70 indicating that leadership capability is strongly influential on competitiveness. Vision casting was rated the highest (M = 3.78, SD = .855), followed by strategic decision-making (M = 3.70, SD = .863), and effective communication with teams (M = 3.68, SD = .930). Monitoring was the least influential on competitiveness. The findings align with observations made by Keller et al. (2022) regarding the influence that visionary leaders have on enhancing organizational market growth. Ahmad, Kadzrina, & Yen (2018) also found that leaders who communicate company vision to teams gain a competitive edge in the market. Okiyo and Kihara (2024) cautioned that leaders should encourage employees to

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be creative to encourage competitiveness instead of discouraging them through autocratic monitoring. The findings are in consensus that leadership capabilities have a strong influence on organizational competitiveness.

Results from Regression Analysis

The objective was centered on analyzing the effect of leadership capabilities on the competitiveness of PSP firms in Kenya. Regression Analysis was used to examine the effect of leadership capabilities on the competitiveness of PSP firms in Kenya. Market share growth was the dependent variable and leadership capability was the independent variable measured through strategic decision-making, effective communication, vision casting, and monitoring.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.540[a]	0.292	0.257	0.743

Analysis of collected data revealed that the coefficient of determination R2 value was 0.292, indicating that 29.2% of the variance in the dependent variable was explained by monitoring, vision casting, communication, and decision-making. The adjusted R2 of 0.257 is lower than R2 shows the measure of association between dependent and independent variables because it is sensitive to the addition of extraneous factors. The typical error was 0.743 when the model is applied to forecast how leadership capabilities influence PSP's competitiveness in Kenya. Gachira and Ntara (2024) found similar observations like the ones made by participants from the 35 PSPs. That is, leadership features have a stronger effect on how SME perform in the Kenyan market ($\beta = 0.769$, $p < 0.001$). The specific capability related to idealized influence indicating how leaders influence a firm's competitiveness. Additional findings by Okiyo and Kihara (2024) echo these insights in the decision-making and communication are important leadership capabilities that explain the market growth of FinTech firms ($\beta = 0.139$, $p = 0.004$).

FINDINGS

Correlation analysis confirmed that a positive and significant relationship between leadership capabilities and PSP's competitiveness exists with a correlation coefficient of 0.890 ($p < 0.01$) and the regression coefficient of ($\beta = 0.69$, $p < 0.01$). Based on the strong statistical association and predictive power it may be noted that leadership capabilities in terms of vision casting, effective communication, monitoring, and making strategic decisions significantly impact PSP's competitiveness. These results can be interpreted to mean that the capabilities that a leader possesses are integral in promoting the competition of PSPs, especially in the Kenyan market. Secondary data supports the results considering Kenyan PSPs uses inspirational leadership to motivate its employees and facilitate its competitiveness (Kimani & Mutuku, 2025). In addition, other PSPs rely on effective communication with teams to achieve strong collaboration in its market leadership, thereby achieving strong market competition (Omondi & Kinyanjui, 2024).

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CONCLUSION

This study is important because it addresses a pressing challenge in Kenya's rapidly evolving FinTech landscape, sustaining the competitiveness of PSP firms amid intense market dominance by Safaricom's M-Pesa and declining performance of smaller providers. While FinTech has significantly enhanced financial inclusion, the industry's competitiveness is threatened by issues such as poor service quality, inconsistent customer satisfaction, low brand loyalty, and inefficiencies. Without deeper understanding of how PSPs can strengthen their market position, the sector risks overconcentration, reduced innovation, and weakened resilience against global financial disruptions.

By focusing on leadership capabilities within the Dynamic Capabilities Framework, this research highlights a crucial but underexplored factor influencing competitiveness. Previous studies have often examined financial or technological determinants of success but overlooked leadership as a strategic driver. Yet, leadership determines how firms adapt, innovate, and align with customer needs, factors that are central to long-term competitiveness. The study's findings show that effective vision casting, decision-making, communication, and monitoring directly enhance PSP competitiveness through improved market share, customer satisfaction, and loyalty. This emphasis on leadership fills a conceptual and methodological gap in the literature and provides evidence that competitiveness is not just about resources or technology but about how leaders leverage them.
The study is also practically important for policymakers, regulators, and PSP executives. Its insights offer a roadmap for smaller PSPs to build resilience and reduce overreliance on a single dominant player, fostering healthier competition in Kenya's financial ecosystem. Furthermore, as digital finance continues to shape global economies, these findings provide lessons for other emerging markets grappling with similar dynamics. Ultimately, this study contributes to sustainable financial inclusion, economic growth, and organizational resilience by showing that strategic leadership is a decisive factor in maintaining competitiveness in Kenya's PSP sector.

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