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The Influence of Organizational Culture on the Transformation of Micro Finance Institutions (MFIS) Into Deposit Taking Microfinance Institutions In, Nakuru County, Kenya

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Abstract

The transformation within MFI involves changes in organizational structure, objectives, geographical scope, customer base, products and services, and legal status. Transformation is characterized by tighter regulatory oversight from national banking authorities. The study noted that the transformation process starts at the point in which the institution ceases operating as an NGO and legally starts operating as a formal financial institution. This study adopted a descriptive research design. The target population of this study is the staff working in Microfinance institutions in Nakuru town. A sample size of 83 respondents was utilized. The organizational culture negatively influences the success of transformation of MFIs into DTMs on its own. In this context, the study concluded that customer service had greater influence on the success of transformation of MFIs to DTMs than other metrics due to its high mean and low standard deviation. The study recommended that more emphasis be placed on the decisions communication levels to be successful. This is because these aspects generally had greater influence in respect to their means.

Key Words: Organizational Culture, Transformation, Deposit Taking Microfinance

I.INTRODUCTION

The transformation within MFI involves changes in organizational structure, objectives, geographical scope, customer base, products and services, and legal status (Siriaram & Upadhyayula, 2004). Espallier, Goedecke, Hudon, & Mersland (2016) in their study on institutional transformation in MFIs examined the MFI transformation as a shift from NGO to a shareholder firm. The transformation in this context is characterized by tighter regulatory oversight from national banking authorities. The study noted that the transformation process starts at the point in which the institution ceases operating as an NGO and legally starts operating as a formal financial institution.

On the other hand, Pradesh (2012) in a study on transformation of MFIs conceptualizes transformation as a change management strategy that aims at aligning people, process and technology aspects within an institution in order to fit the changing business strategy and vision (Campion & White, 2009) (Siriaram & Upadhyayula, 2004).Campion & White (2009) in an examination on institutional metamorphosis conceptualized transformation as the institutional process of change that occurs when microfinance non-governmental organizations (NGOs) create or spin off regulated microfinance institutions (MFIs). The factors that lead to transformation within the MFI sector can be internal factors, external factors or both. These reasons include need to be independent from donors, cheaper access to funds for credit business, improvement in governance structure, and need to be competitive in their services provision. Other reasons include need for reduction of operational costs, reduction in vitality in funding costs, reduction in operational risks, growth in loan portfolio through an increase in commercial funds as well as issuance of larger loans on average. The call for transformation is motivated by the possibility to become regulated institutions with a legal right to mobilize local savings and thereby increase both scale and scope of operations.

From a historical perspective, the transformation within MFIs started in 1980s from a mostly philanthropic not-for-profit organization that were supported by donors. These early institutions were mostly modeled along the Non-Government Organization (NGOs) operational framework. However, these early MFIs or NGO-MFIs with time evolved from this model of operations and transformed to Non-Bank Financial Institutions (NBFIs), Deposit Taking Micro Finance Institutions (DTMs), and commercial banks.

II.RESEARCH OBJECTIVE

To establish the influence of organizational culture on the transformation of micro finance institutions (MFIS) into deposit taking microfinance institutions in Nakuru county, Kenya

III.RESEARCH QUESTION

How does organizational culture influence the transformation of micro finance institutions (MFIs) transformation into Deposit Taking Microfinance Institutions in Nakuru County, Kenya?

IV.LITERATURE REVIEW

The organizational culture refers to the collective behavior of people within an organization which is formed through values, visions, norms, systems, beliefs and habits amongst diverse aspects. The organizational culture has also been conceptualized as shared values, beliefs and norms within an organization (Özer, Cihan, & Tınaztepe, 2014). The organizational culture plays a critical role in the transformation of an organization as the culture can either be supportive or undermining to the transformation process (Pradesh, 2012).

The change of the organizational culture is critical in the process of MFI transformation. In this context, Pradesh (2012) in a study on the Transformation of MFIS indicated the need of cultural change in the first MFI in the world to transform into a commercial bank that is PRODEM microfinance transformation into BancoSol bank. There was need for organizational culture change in BancoSol bank as the informal culture that was prevalent in PRODEM was not suitable for the new commercial bank. The new commercial bank addressed the challenges through better information system, stricter management structure, and a new chain of command. In enabling the organizational culture change that led to better transformational success, BancoSol incorporated seasoned staff in diverse areas of expertise including bankers, human resource staff, credit officers and liability management experts.

The organizational culture that needs change in the process of organizational transformation has the capacity to influence the success of the organizational transformation. In this context, Manyumbu, Mutanga, & Siwadi (2014) in a study on the factors affecting the sustainability of Micro Finance Institutions (MFIs) notes that the organizational culture disruption in the process of transformation should be handled with care. This is because the organizational culture change brings an element of uncertainty within the organization in regard to job security aspects amongst other aspects (Espallier, Goedecke, Hudon, & Mersland, 2016). This is because change in organization represents change in the ways in which the organization operates in terms of expected staff behaviour, staff performance appraisal system, reporting hierarchy and processes within the organization. In this context, diverse transforming MFIs adequately engage their staff through dialogue and capacity building aspects (Bhopal, 2011).

The MFI transformation leads to a new organization with new objectives, products and services, and an increasingly new customer base. The organizational culture must change in line with the transforming organization. The organization way of treating customers and working arrangements amongst the staff must change in line with the transforming organization (Wu & Wu, 2011). This is because new skills and practices are required in handling the customer service aspects in the new entity. This is because the customer service aspects are critical in the new transformed business as a result of need to attract clientele that may be skeptical about the new transformed institution.

V.RESEARCH METHODOLOGY

The descriptive research design was adopted for this study because the researcher is interested in describing the factors influencing organizational transformation projects amongst Kenyan Micro Finance Institutions in Nakuru town. The target population of this study is the staff working in Microfinance institutions in Nakuru town. According to Munderu, (2016), there are 105 staff working in DTMs in Nakuru town including the operations staff, sales staff, and management staff. There are four DTMs in Nakuru County that is Faulu, Kenya Women Finance Trust, SMEP and Rafiki microfinance banks. The sample size of this study was calculated through the Yaro Yamane Formula (1967). The formula to scientifically derive the sample from the target population is illustrated hereunder.

$$n=\frac{N}{1+N(e^2)}$$

Where

n = sample size

N =size of target population

e = error margin (0.05)

Substituting these values in the equation, estimated sample size (n) was:

$n = 105 / (1+ 105(0.05^2)) = 83$ respondents

The study utilized the simple random sampling as a sampling technique. The simple random sampling ensures that each respondent has an equal chance of being selected hence eliminating any bias. The structured questionnaire was used for the purpose of data collection. The descriptive statistics that were used to better understand the responses included means, standard deviations and frequencies.

VI.RESEARCH FINDINGS AND DISCUSSIONS

The aspect of organizational culture was examined to see whether it was useful in MFI transformation to DTMs using various metrics. These metrics included management structure, staff behavior, staff attitude, customer service, team work, performance appraisal system, work deliverables formulation, and decisions communication levels. The frequency distribution results were shown in table 1.

Only decisions communication levels attracted a strongly disagreed response among all the metrics on the aspect of organizational culture. However, it also had the highest number of strongly agreed responses at 50.7% of the respondents, with an additional 40.6% choosing the agree response. The respondents who were not sure whether management structure was useful in MFI transformation to DTMs were 37.7% while those who strongly agreed, agreed and disagreed were18.8%, 34.8% and 8.7%. Staff behavior elicited an equal number of respondents (33.3%) who affirmed and were not sure whether it was useful in MFI transformation to DTMs. This is because new skills and practices are required in handling the customer service aspects in the new entity.

Table 1: Frequency Distributions of Organizational Culture

	SA (%)	A (%)	U (%)	D (%)	SD (%)
Management Structure	18.8	34.8	37.7	8.7	0.0
Staff behaviour	17.4	33.3	33.3	15.9	0.0
Staff attitude	39.1	37.7	17.4	5.8	0.0
Customer Service	29.0	53.6	17.4	0.0	0.0
Team Work	20.3	34.8	27.5	17.4	0.0
Performance appraisal system	21.7	46.4	17.4	14.5	0.0
Work deliverables formulation	29.0	44.9	26.1	0.0	0.0
Decisions Communication levels	50.7	40.6	2.9	4.3	1.4

When asked whether staff attitude and team work were useful in MFI transformation to DTMs, a fairly equal number of respondents (37.7% and 34.8% respectively) agreed that they were with an additional 39.1% and 20.3% respectively who chose strongly agreed on both metrics affirming the same. Customer service has a cumulative majority of 82.6% of the respondents affirming that it was useful in MFI transformation to DTMs (29.0%=strongly agree, 53.6%=agree).The MFIs transformation into DTMs leads to a new organization with new objectives, products and services, and an increasingly new customer base therefore the need to attract clientele that may be skeptical about the new transformed institution through good service.

Performance appraisal system is useful in MFI transformation to DTMs with respondents affirming 68.1% (21.7%=strongly agreed, 46.4%=agreed) that it was. Work deliverables formulation had most of the respondents (44.9%) choosing the agree response. There were no respondents who disagreed or strongly disagreed that work deliverables formulation was useful in MFI transformation to DTMs. The average perception as well as consensus on the usefulness of the aspect of organizational culture was examined to see whether it was useful in MFI transformation to DTMs. The mean scores and standard deviations of the various metrics on organizational culture were used. These metrics included management structure, staff behavior, staff attitude, customer service, team work, performance appraisal system, work deliverables formulation, and decisions communication levels. The results were shown in table 2.

The respondents on average tended to agree that decisions communication levels were useful in MFI transformation to DTMs and there was moderate consensus on the same (mean score=4.348, std. dev. =0.855). Decisions communication levels had the highest mean score indicating that the respondents on average perceived it to be generally more useful in transformation of MFIs to DTMs than the other metrics on organizational culture. This was consistent with Bhopal(2011), who noted that diverse transforming MFIs adequately engage their staff through dialogue and capacity building aspects.

Table 2: Means and Standard Deviations of Organizational Culture

	Min.	**Max.**	**Mean**	**Std. Dev.**
Management Structure	2	5	3.638	0.891
Staff behaviour	2	5	3.522	0.964
Staff attitude	2	5	4.101	0.894
Customer Service	3	5	4.116	0.676
Team Work	2	5	3.580	1.006
Performance appraisal system	2	5	3.754	0.961
Work deliverables formulation	3	5	4.029	0.747
Decisions Communication levels	1	5	4.348	0.855

The average perception and consensus was the same for management structure (mean score=3.638, std. dev.=0.891), staff attitude (mean score=4.101, std. dev.=0.894), performance appraisal system (mean score=3.754, std. dev.=0.961), and work deliverables formulation (mean score=4.029, std. dev.=0.747), that is, the respondents on average tended to agree that the metrics were useful in MFIs transformation to DTMs and there was moderate consensus on the responses. The average perception on customer service (mean score=4.116, std. dev. =0.676), was the respondents on average tended to agree that it was useful in MFIs transformation to DTMs. Wu & Wu (2011), noted that this is because the customer service aspects are critical in the new transformed business as a result of need to attract clientele that may be skeptical about the new transformed institution.

The average perception on staff behaviour (mean score=3.522, std. dev.=0.964)was the respondents on average tended to agree that it was useful in MFIs transformation to DTMs. The organization way of treating customers and working arrangements amongst the staff must change in line with the transforming organization (Wu & Wu, 2011). This is because new skills and practices are required in handling the customer service aspects in the new entity. The respondents on average were inclined to agree that organizational culture was useful in the success of MFIs transformation into DTMs since all the mean scores for the organizational culture matrix were between 3.501 and 4.500. This was consistent with what Pradesh (2012) found in a study on Transformation of MFIs as a Long-Term Process Requiring a Fundamental Change in Management Practices and Culture. The study found that the organizational culture plays a critical role in the transformation of an organization as the culture can either be supportive or undermining to the transformation process. This means that organizational culture must change in line with the transforming organization.

Additionally, Manyumbu, Mutanga, & Siwadi (2014) in a study on the factors affecting the sustainability of Micro Finance Institutions (MFIs) notes that the organizational culture disruption in the process of transformation should be handled with care. This is because the organizational culture change brings an element of uncertainty within the organization in regard to job security aspects amongst other aspects (Espallier et al., 2016). Additionally, the Resource Based View Theory also indicates that the resources necessary for gaining and sustaining change in an organization include human resource, technology, organizational culture, patents and other tangible and intangible resources (Jebukosia, 2013).However, the responses were widely distributed around the mean for team work implying there was no consensus on the usefulness of team work in transformation of MFIs to DTMs as it had standard deviation of 1.006 (standard deviation of 1 and above).

VII.CONCLUSION OF THE STUDY

On the other hand, organizational culture negatively influences the success of transformation of MFIs into DTMs on its own. In this context, the study concluded that customer service had greater influence on the success of transformation of MFIs to DTMs than other metrics due to its high mean and low standard deviation.

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VIII.RECOMMENDATIONS OF THE STUDY

The study recommended that more emphasis be placed on the decisions communication levels to be successful. This is because this aspect generally had greater influence in respect to their means.

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