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The Influence Of Business Reengineering On The Transformation Of Micro Finance Institutions (MFIs) Into Deposit Taking Microfinance Institutions In Nakuru County, Kenya

Michael Runji

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Abstract

Despite the successes associated with the transformation within the MFI sector, there have been challenges associated with the process. The transforming MFIs struggle with the redefinition of identity, redrawing the boundaries of the firm and issues of legitimacy. The challenges present in the transformation process amongst MFIs are associated with the hybrid nature of the institutions that is the social duties of MFIs which is poverty alleviation and the commercial need to be financially self-sustaining. Other challenges include licensing, rising of equity, and operational transition. Business reengineering is critical in reorientation of the new transformed organization's processes, services and products from the old organization. The study concluded that corporate governance framework 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 recommends that the MFIs should place an emphasis on the corporate governance mechanism in order to ensure successful transformation of MFIs to DTMs.

Key Words: Business Reengineering, Transformation, Deposit Taking Microfinance

I.INTRODUCTION

The transformation within the MFI sector has occurred in diverse countries. In Bolivia, the first NGO to transform to a commercial bank was the *Programa de Desenvolvimento Municipal* (PRODEM) Non-Governmental Organization. This transformation which was also a first in the world led to the formation of the BancoSolidario S.A. bank also popularly known as BancoSol which started operations on 2nd of February, 1992. The factors that led to the need for PRODEM to transform included growth in loan portfolio exceeding available donor funding, and restriction in its legal status as an NGO from accessing commercial funding required for growth (Campion & White, 2009).

In Kenya, the transformation of the MFIs was pioneered by K Rep Bank which received its commercial banking license from Central Bank of Kenya on 26th March, 1999 and started operations as bank in September of 1999. The Kenya Rural Enterprise Programme (K-REP) was launched in Kenya in 1984 as a project of World Education Incorporated, a US based Non-Governmental Organization. The initial mandate was the facilitation of grants, training and technical assistance to smaller NGOs with funding mostly from United States Agency for International Development (USAID). Then KREP later transformed its operational model from disbursement of funds to NGOs into group lending model pioneered in Bangladesh. This was further enhanced into Rotating Savings and Credit Schemes (ROSCAs). KREP started the transformation process following a board resolution on the 28th of January, 1994 (Mureithi, 2012). The objectives of the transformation included gaining access to additional sources of income hence expanding loan services, provision of additional financial services such as savings and current accounts to their target population, and improve financial performance of the MFI. Other pioneer MFIs that transformed included Kenya Women Finance Trust (KWFT), Small and Micro Enterprise Program (SMEP), and Faulu Kenya amongst others (Mugo, 2012).

Despite the successes associated with the transformation within the MFI sector, there have been challenges associated with the process. Espallier et al., (2016) noted that the transforming MFIs struggle with the redefinition of identity, redrawing the boundaries of the firm and issues of legitimacy. The challenges present in the transformation process amongst MFIs are associated with the hybrid nature of the institutions that is the social duties of MFIs which is poverty alleviation and the commercial need to be financially self-sustaining.

Campion & White (2009) in their study on Transformation of Microfinance NGOs into Regulated Financial Institutions documented the diverse challenges that PRODEM experienced in Bolivia during the transformation process. These challenges included licensing, rising of equity, and operational transition. In the context of licensing aspects, the regulatory authorities in Bolivia were accustomed to the traditional and conventional banking models which were not compatible with PRODEM's operations. This necessitated significant effort undertaken by the PRODEM management to convince the regulatory authorities on the viability of a commercial bank and hence awarding of a license. The process of raising the minimum operational capital for commercial banks was also a challenge. This was partly due to the newness of the concept of commercial microfinance institution in the country and in the world. Finally, PRODEM had to undertake significant costs in order to facilitate change management practices in terms of staff capacity building and change in organizational culture.

Amongst the remedies that the MFIs have in respect to addressing the challenges associated with transformation include need for experienced and transformational leadership, enabling organizational culture, business reengineering and change management practices (Mugo, 2012). Leadership is key in offering a sense of direction during the transformation process, handling emerging challenges, dedicating resources (human, financial and technological resources) and the stakeholder management aspects amongst others. The transformed institutions must have enabling cultures which are in sync with their aspirations in the transformed institutions including their behaviour, work ethics, and treatment of customers amongst other aspects (Tripathi, 2014). Business reengineering is critical in reorientation of the new transformed organization's processes, services and products from the old organization. Finally, the change management relates to the process involved in the transformation process, managing any resistance to change, enabling the change process to be smooth and entrenchment of the new best practices (Mureithi, 2012).

II.RESEARCH OBJECTIVE

To examine the influence of business reengineering on the transformation of micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions in, Nakuru County, Kenya.

III.RESEARCH QUESTION

How does business reengineering influence the transformation of microfinance institutions into Deposit Taking Microfinance Institutions in Nakuru County, Kenya?

IV.LITERATURE REVIEW

According to Sungau, Ndunguru, & Kimeme (2013), the business reengineering refers to a process design, process management, and process innovation. On the other hand, Mutua (2010) notes that the business reengineering involves the fundamental rethinking and radical

redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed.

One of the key components of business reengineering that has a tremendous impact on the organizational transformation is the business process automation. The business process automation involves the use of information technology in the execution of diverse services within the banking process. The use of business automation is expected to enhance the customer satisfaction levels, enhance market share of the new deposit taking MFI, and initiate cost efficiency measures within the DTMs. The business automation will enable the adequate use of the technology with the new DTMs. Amongst the new technologies that can be adopted include Automated Teller Machines (ATMs), Point Of Sale (POS) card readers, mobile and internet banking technologies, and Customer Relationship Management (CRM) systems. The benefits of these new technologies are numerous. However, the process of adopting the diverse technologies such as choosing of vendors, conducting User Acceptability Tests (UAP), acquisition, deployment through the branch network and training of staff on the diverse aspects is time and cost demanding. The ability to handle this phase of transformation adequately impacts on the pace of transformation within the MFI.

The business reengineering in MFIs is undertaken with a process of enhancing speed in service delivery. The speed ensures those customers are able to be served faster and more efficiently. The transformation of MFIs to DTMs means that unlike MFIs that don't have fully fledged banking services, the DTMs must have fully fledged baking halls for the purposes of deposit taking activities. The new DTMs also compete directly with more entrenched commercial banks with established customer service systems. The MFI that is transforming must therefore reengineer its processes so that it is competitive in terms of speed and quality delivery to its target clientele. The old and manual based processes must be replaced by automated processes that are faster and more efficient to execute in operational processes.

The need for business reengineering is critical for the organizational transformation amongst the MFIs. Espallier, Goedecke, Hudon, & Mersland (2016) in a study on NGO transformation to banks notes the need for operational processes reengineering. In this context, the study notes that the success of the transformation process is based on the incorporation of better corporate governance systems, improvement in management structures and reorientation of the operational procedures with a view of enhancing efficiency.

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

According to Sungau, Ndunguru, & Kimeme (2013), the business reengineering refers to a process design, process management, and process innovation. The respondents were asked to give their opinions on whether various metrics on business reengineering aspects were useful in MFI transformation to DTMs. These metrics included business process automation, adoption of new technologies, staff training on new technologies, processes redesigns, corporate governance framework, reporting lines realignment, work functions redesign, and products and services redesign. The results were as presented in table 1.

Table 1: Frequency Distributions of Business Reengineering

	SA (%)	**A (%)**	**U (%)**	**D (%)**	**SD (%)**
Business Process Automation	23.2	43.5	23.2	5.8	4.3
Adoption of New Technologies	10.1	49.3	27.5	11.6	1.4
Staff training on new Technologies	24.6	49.3	13.0	10.1	2.9
Processes Redesigns	27.5	46.4	8.7	14.5	2.9
Corporate Governance Framework	24.6	62.3	1.4	7.2	4.3
Reporting Lines Realignment	18.8	62.3	11.6	5.8	1.4
Work Functions Redesign	11.6	59.4	14.5	14.5	0.0
Products and Services redesign	18.8	47.8	15.9	11.6	5.8

Most of the respondents (43.5%) used the agree response and (23.2%) used the strongly disagree response in the context of business process automation. The uncertain responses on business automation attracted 23.2% of the respondents while disagree and strongly disagree responses had 5.8% and 4.3% of the respondents. The respondents who felt the adoption of new technologies were useful were 10.1% and 49.3% respectively who chose the strongly agree and agree prompts. The ability to adopt new technologies during transformation adequately impacts on the pace of transformation within the MFI.

The respondents who felt that adoption of new technologies was not useful in MFI transformation to DTMs were 11.6% who chose disagree and 1.4% who chose strongly disagree prompts. This could be attributed to time and cost demands in the process of adopting the diverse technologies such as choosing of vendors, conducting User Acceptability Tests (UAP), acquisition, and deployment through the branch network.

Staff training on new technologies attracted cumulative majority of 73.9% who affirmed that it was useful in MFI transformation to DTMs (49.3=agree, 24.6%=strongly agree) while those who were not sure it was useful in MFI transformation to DTMs were 13.0%.Process redesigns, and products and services design all had most respondents choosing agree, that is, 46.4% and 47.8% respectively, 27.5% and 18.8% respectively choosing strongly agree, 7% and 15.9% respectively being uncertain, 14.5% and 11.6% disagreeing, and 2.9% and 5.8% choosing strongly disagree.

Corporate governance framework, reporting lines realignment, and work functions redesign each had more than half of the respondents choosing the agree prompt, that is, 62.3%, 62.3% and 59.4% respectively indicating that the respondents felt they were generally useful in MFI transformation to DTMs. Work functions redesign had no strongly disagreed response while corporate governance framework, and reporting lines realignment had 4.3% and 1.4% of the respondents choosing the disagree prompt.

The average opinions on whether various metrics on business reengineering aspects were useful in MFI transformation to DTMs were examined using mean scores of individual metrics of the business reengineering matrix. Examination on whether there was consensus in responses was also done using the standard deviations of individual metrics of the business reengineering matrix. These metrics included business process automation, adoption of new technologies, staff training on new technologies, processes redesigns, corporate governance framework, reporting lines realignment, work functions redesign, and products and services redesign. All the mean scores of the metrics on business reengineering indicated that the respondents on average tended to agree that each metric was useful in transformation of MFIs to DTMs, as shown in table 2.

Table 2: Means and Standard Deviations of Business Reengineering

	Min.	Max.	Mean	Std. Dev.
Business Process Automation	1	5	3.754	1.020
Adoption of New Technologies	1	5	3.551	0.883
Staff training on new Technologies	1	5	3.826	1.014
Processes Redesigns	1	5	3.812	1.088
Corporate Governance Framework	1	5	3.957	0.977
Reporting Lines Realignment	1	5	3.913	0.818
Work Functions Redesign	2	5	3.681	0.866
Products and Services redesign	1	5	3.623	1.099

The mean scores in all of these metrics were3.754 for business process automation, 3.551 for adoption of new technologies, 3.826 for staff training on new technologies, 3.812 for processes redesigns, 3.957 for corporate governance framework, 3.913 for reporting lines realignment, 3.681 for work functions redesign, and 3.623 for products and services redesign. In the context of business process reengineering, the respondents were inclined to agree that on average it was useful in transformation of MFIs to DTMs.

This was consistent with Mutua (2010) who noted that one of the key components of business reengineering that has a tremendous impact on the organizational transformation is the business process automation. The business process automation involves the use of information technology in the execution of diverse services within the banking process. The use of business automation is expected to enhance the customer satisfaction levels, enhance market share of the new deposit taking MFI, and initiate cost efficiency measures within the DTMs. The business automation will enable the adequate use of the technology with the new DTMs.

On average, adoption of new technologies was perceived to be useful in transformation of MFIs to DTMs (mean score from 3.501 to 4.500). This was contrary to Mutua (2010)who noted that the process of adopting the diverse technologies such as choosing of vendors, conducting User Acceptability Tests (UAP), acquisition, deployment through the branch network and training of staff on the diverse aspects is time and cost demanding and adequately impacts on the pace of transformation within the MFI. The aspect of staff training in the context of business reengineering had respondents on average agreeing that it was useful in transformation of MFIs to DTMs. According to Sungau, Ndunguru, & Kimeme (2013), training of staff on new technologies is undertaken with a process of enhancing speed in service delivery to ensure that those customers are able to be served faster and more efficiently.

On average, the respondents were inclined to agree that business reengineering is useful in MFIs transformation into DTMs since all the means of the matrix were from 3.501 to 4.500. The need for business reengineering is critical for the organizational transformation amongst the MFIs. This was consistent with findings of Espallier, Goedecke, Hudon, & Mersland (2016) in a study on NGO transformation to banks who noted that there is need for operational processes reengineering. This was because the success of the transformation process is based on the incorporation of better corporate governance systems, improvement in management structures and reorientation of the operational procedures with a view of enhancing efficiency.

The responses were moderately distributed around the mean for adoption of new technologies (0.883), corporate governance framework (0.977), reporting lines realignment (0.818), and work functions redesign (0.866) implying the respondents had moderate consensus (standard deviation of 0.501 to 0.999) on their usefulness in transformation of MFIs to DTMs. Business process automation, staff training on new technologies, processes redesigns and products and services redesign had their responses widely distributed around the mean with standard deviations of 1.020, 1.014, 1.088 and 1.099 respectively, which implied that there was no consensus (standard deviation greater than 1) among the respondents on their usefulness in transformation of MFIs to DTMs.

VII.CONCLUSION OF THE STUDY

The study concluded that corporate governance framework had greater influence on the success of transformation of MFIs to DTMs than other metrics due to its high mean and low standard deviation.

VIII.RECOMMENDATIONS OF THE STUDY

The study recommends that the MFIs should place an emphasis on the corporate governance mechanism in order to ensure successful transformation of MFIs to DTMs.

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