

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

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Abstract

Most microfinance institutions in Kenya seek to transform mostly to deposit taking microfinance institutions with a view of accessing deposits for the purposes of lending. In this context, Mureithi (2012) notes that MFIs often seek to transform to the deposit taking MFIs as a platform to access cheap deposit funds hence creating platform to further improve on their ability to lend larger loans with longer repayment period. These aspects influence their financial performance positively. Other advantages associated with transformation include improved governance structure, customer service and products offered to customers (Tripathi, 2014).Despite the advantages associated with transformation of MFIs into deposit taking MFIs, there are diverse challenges that may occur during transformation. These challenges include struggles with redefinition of identity, redrawing the boundaries of the firm and issues of legitimacy. This is due to 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. 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 105 staff working in Microfinance institutions in Nakuru town that is Faulu, Kenya Women Finance Trust, SMEP and Rafiki microfinance banks. The study concluded that change management practices positively influence the success of transformation of MFIs to DTMs on their own. Branding aspects have greater influence on the success of transformation of MFIs to DTMs than other metrics due to the high mean.The study recommends that the MFIs should place an emphasis on branding aspects have greater influence on the success of transformation of MFIs to DTMs than other metrics due to the high mean.

Key Words: Change Management, Transformation, Deposit Taking Microfinance

I.INTRODUCTION

Most microfinance institutions in Kenya seek to transform mostly to deposit taking microfinance institutions with a view of accessing deposits for the purposes of lending. In this context, Mureithi (2012) notes that MFIs often seek to transform to the deposit taking MFIs as a platform to access cheap deposit funds hence creating platform to further improve on their ability to lend larger loans with longer repayment period. These aspects influence their financial performance positively. Other advantages associated with transformation include improved governance structure, customer service and products offered to customers (Tripathi, 2014).Despite the advantages associated with transformation of MFIs into deposit taking MFIs, there are diverse challenges that may occur during transformation. These challenges include struggles with redefinition of identity, redrawing the boundaries of the firm and issues of legitimacy. This is due to 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.

Some of the challenges noted in Kenya in relation to leadership of the transforming MFIs to DTMs was poaching of staff from established banks into DTMs that consequently fail to deliver. An example is a former CBK director poached by Jamii Bora bank after its transformation and later sacked after eight months due to the bank's need to undertake further

structural alignments. This study wishes to examine the factors influencing transformation of Micro Finance Institutions (MFIs) into deposit taking microfinance institutions in Nakuru County. In particular, the role of leadership, organizational culture, business reengineering, and change management practices were examined in enhancing transformation projects.

II. RESEARCH OBJECTIVE

To establish the influence of change management practices on the transformation of micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions in Nakuru County, Kenya.

III. RESEARCH QUESTION

How do change management practices influence the transformation of microfinance institutions into Deposit Taking Microfinance Institutions in Nakuru County, Kenya?

IV. LITERATURE REVIEW

The institutional change management is critical in enhancing the success of organizational transformation. Mugo (2014) in a study on change management practices at Kenya Revenue Authority describes change management as the process of aligning structures, systems, processes and behavior to the new strategy or transformed organization. On the other hand, Lisero (2014) in a study on the implementation of strategic change at CBK notes that change management refers to the structured and systematic approach towards achievement of sustainable change in human behavior within an organization. Finally, Kamaku (2012) in a study on strategic change within Non-Governmental Organizations in Kenya notes that change management involves continually renewing the organization direction, structure and capabilities to serve the ever changing needs of the market place, the organization and employees.

The change management is of critical importance to the transformation process within Micro Finance Institutions due to the nature of diverse changes occurring in the organization. Some of these changes include changes in the legal status, branding aspects, products and services, business processes, organizational culture, management structure and staff at diverse levels (Ala, 2013). The change management is critical in managing staff expectation and behavioral aspects during the process of transformation. The transformation process may elicit resistance from some staff due to fear of losing their jobs and positions within the organizations, fear of new ways of working as well as the new organizational culture (Maina, 2014). These fears may be realistic as well as emotive and subjective in nature. However, staff resistance as the capability of limiting the transformation process through internal sabotage and inactiveness amongst staff on key transformation deliverables.

The MFI transformation also involves the changes in operational infrastructure such as information technology systems, and operational processes. The changes in the information technology such as the core banking system as well as embracing of new technologies or up scaling of old technologies on diverse areas such as mobile banking, internet banking, point of sales and automated teller machines needs to be done in a structured and systematic manner (Kinuthia, 2013).

The change management is critical in the area of technological changes because of diverse factors (Atavachi, 2013). Some of these factors include the suitability of the adopted technologies to meet the demands of the transformed organization, staff training on the new

technologies, and creation of customer awareness on the new technologies amongst other factors. The senior management involved in changing the new technology must be careful in the choosing of the vendors for new technologies to ensure that the transformed organization has a stable system with minimal downtimes, and the ability of the system to integrate with diverse subsystems within the organization (Pradesh, 2012). This is because acquisition of new technologies is often an expensive affair. The staff training in the usage of the new technology is of critical importance.

The change management team must undertake the User Acceptability Tests (UATs) to ensure that the systems are acceptable amongst the target staff to utilize the system and that more critically the system is able to perform its desired functions (Espallier et al., 2016). In the context of training, the change management team must ensure that factors that hinder adequate and quick adoption of the new technologies must be addressed adequately. These challenges may include poor staff attitude, challenges in technical skills such as computer usage skills, old staff, and negative perceptions of ease of use of the new technologies as well as their benefits (Bhopal, 2011).

In the context of new technologies in relations to the customers, the change management staff must be in a position to create champions responsible for driving awareness, uptake and usage of new technologies such as digital channels. The change management ensures that branches are able to help create awareness through educating the customers on the usefulness of the new technologies such as mobile banking as well as drive usage of these channels. This is because these digital channels are critical in ensuring that the financial institution keeps its costs of operations and customer satisfaction levels at appropriate levels. Finally, change management must be keen on the staff adoption and compliance levels with the new services, products and processes. The transformation leads to the development of new processes due to the expansion of the scope of operations as well as target market. The change management team must be in a position to illustrate to the team on ways in which the new processes work, their logic and the escalation points in cases of challenges(Keet,2005).

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:

$$n = 105 / (1 + 105(0.05^2)) = 83 \text{ respondents}$$

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

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 institutional change management is critical in enhancing the success of organizational transformation. Kamaku (2012) in a study on strategic change within Non-Governmental Organizations in Kenya notes that change management involves continually renewing the organization direction, structure and capabilities to serve the ever changing needs of the market place, the organization and employees. This study examined what change management aspects are useful in MFI transformation to DTMs. This was done using various metrics including structures, systems, sustainable change in human behavior, branding aspects, products and services, customer communication, employee communications and shareholders communication and results presented in table 1.

When asked whether they thought that branding aspects were useful in MFI transformation to DTMs, more than half of the respondents (53.6%) strongly agreed that they were, which was further supported by 26.1% who chose the agree prompt.

Table 1: Frequency Distributions of Change Management Practices

	SA	A	U	D	SD
	(%)	(%)	(%)	(%)	(%)
Structures	30.4	50.7	10.1	7.2	1.4
Systems	24.6	33.3	24.6	17.4	0.0
Sustainable Change In Human Behavior	30.4	52.2	8.7	7.2	1.4
Branding Aspects	53.6	26.1	11.6	8.7	0.0
Products and Services	27.5	47.8	18.8	4.3	1.4
Customer Communication	47.8	27.5	17.4	7.2	0.0
Employee Communications	44.9	29.0	15.9	10.1	0.0
Shareholders Communication	27.5	43.5	29.0	0.0	0.0

Customer communication and employee communications both had most of the respondents (47.8% and 44.9% respectively) choose strongly agree with an additional 27.5% and 29.0% respectively choosing agree to affirm their usefulness in MFI transformation to DTMs. No response was given on the strongly disagree prompt which further affirmed their importance in MFI transformation to DTMs.

Structures and sustainable change in human behavior both had more than half of the respondents (50.7% and 52.2% respectively) agreeing that they were useful in MFI transformation to DTMs, 30.4% each strongly agreeing, 7.2% each disagreeing and 1.4% each strongly disagreeing which indicated that in general the respondents felt that they were fairly equal in their usefulness in MFI transformation to DTMs. The transformation process may elicit resistance from some staff due to fear of losing their jobs and positions within the organizations, fear of new ways of working as well as the new organizational culture (Maina,

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

2014). This could limit the success of the transformation process through internal sabotage and inactiveness amongst staff on key transformation deliverables.

In the context of systems, 33.3% of the respondents were inclined to agree that they were useful in MFIs transformation into DTMs while 24.6% were inclined to strongly agree on the same. The respondents who were unsure about whether systems were useful in MFIs transformation into DTMs were 24.6% and 17.4% who disagreed with their usefulness. This could be because of challenges including stability of the system with minimal downtimes, and the ability of the system to integrate with diverse subsystems within the organization (Pradesh, 2012). Products and services and shareholders communication had an equal number of strongly agree responses (27.5%) with an almost equal number with agree responses (47.8% and 43.5% respectively indicating that they were useful in MFI transformation to DTMs. Additionally, no respondent gave a strongly disagreed response on shareholders communication and only a negligible 1.4% of respondents gave a strongly disagreed response on products and services.

In the context of change management, the study sought to examine which aspects on average were useful in MFI transformation to DTMs. This was examined using the means of various metrics including structures, systems, sustainable change in human behavior, branding aspects, products and services, customer communication, employee communications and shareholders communication.

The individual mean scores of the metrics on change management from the highest to the lowest scored mean were 4.246 for branding aspects, 4.159 for customer communication, 4.087 for employee communication, 4.029 for sustainable change in human behavior, 4.015 for structures, 3.986 for shareholders communication, 3.957 for products and services and 3.652 for systems.

Table 2: Means and Standard Deviations of Change Management Practices

	Min.	Max.	Mean	Std. Dev.
Structures	1	5	4.015	0.915
Systems	2	5	3.652	1.041
Sustainable Change In Human Behaviour	1	5	4.029	0.907
Branding Aspects	2	5	4.246	0.976
Products and Services	1	5	3.957	0.882
Customer Communication	2	5	4.159	0.964
Employee Communications	2	5	4.087	1.011
Shareholders Communication	3	5	3.986	0.757

In the context of customer communication, respondents were inclined to agree (mean score from 3.501 to 4.500) on average that it was useful in transformation of MFIs to DTMs. This view was also shared by Keet (2005) the change management staff must be in a position to create champions responsible for driving awareness, uptake and usage of new technologies such as digital channels. The change management ensures that branches are able to help create awareness through educating the customers on the usefulness of the new technologies such as mobile banking as well as drive usage of these channels.

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

In the context of products and services, respondents were inclined to agree (mean score from 3.501 to 4.500) that on average, products and services are useful in transformation of MFIs to DTMs. This was consistent with views by Keet (2005), that change management must be keen on the staff adoption and compliance levels with the new services, products and processes. This is because transformation leads to the development of new processes due to the expansion of the scope of operations as well as target market. The change management team must be in a position to illustrate to the team on ways in which the new processes work their logic and the escalation points in cases of challenges.

In the context of systems, the respondents on average were inclined to agree (mean score from 3.501 to 4.500) that it was useful in MFI transformation into DTMs. This was consistent with Atavachi (2013) who noted that the change management is critical in the area of technological changes because of diverse factors. Some of these factors include the suitability of the adopted technologies to meet the demands of the transformed organization, staff training on the new technologies, and creation of customer awareness on the new technologies amongst other factors.

The respondents on average perceived the most useful metric in transformation of MFIs to DTMs in the context of change management was the aspect of branding as it scored the highest mean. The respondents on average tended to agree that all the metrics on change management aspect were useful in transformation of MFIs to DTMs as the means scores of each metric was in the range of 3.501 to 4.500. Ala, (2013) had similar findings, that is, the change management is of critical importance to the transformation process within Micro Finance Institutions due to the nature of diverse changes occurring in the organization. Some of these changes include changes in the legal status, branding aspects, products and services, business processes, organizational culture, management structure and staff at diverse levels. There was no consensus (standard deviation greater than 1) among the respondents on whether systems (std. dev. =1.041) and employee communications (std. dev. =1.011) were useful in transformation of MFIs to DTMs as the responses were widely distributed around the mean. On the other hand, the responses on structures, sustainable change in human behavior, branding aspects, products and services, customer communication, and shareholders communication were moderately distributed around the mean implying that there was moderate consensus in responses that each metric was useful in transformation of MFIs to DTMs.

VII. CONCLUSION OF THE STUDY

The study concluded that change management practices positively influence the success of transformation of MFIs to DTMs on their own. Branding aspects have greater influence on the success of transformation of MFIs to DTMs than other metrics due to the high mean.

VIII. RECOMMENDATIONS OF THE STUDY

The study recommends that the MFIs should place an emphasis on branding aspects have greater influence on the success of transformation of MFIs to DTMs than other metrics due to the high mean.

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

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