FACTORS INFLUENCING SUCCESS OF TRANSFORMATION OF MICROFINANCE INSTITUTIONS INTO DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN NAKURU COUNTY, KENYA

BY

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DECLARATION

This research project report is my original work and has not been presented for a degree in any other University or any other award.

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This research project report has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This work is dedicated to my wife Lucy, my son Emmanuel and my daughters, Joy, Imani and Praise for their prayers and encouragement during the study.

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ACRONYMS & ABBREVIATIONS

ATMs	Automated Teller Machine
CBK	Central Bank of Kenya
DTMs	Deposit Taking Micro Finance Institutions
EI	Emotional Intelligence
K-REP	Kenya Rural Enterprise Programme
KWFT	Kenya Women Finance Trust
MFIs	Micro finance institutions
NGO	Non-Governmental Organizations
NBFIs	Non-Bank Financial Institutions
POS	Point Of Sale
PRODEM	*Programa de Desenvolvimento Municipal*
RBV	Resource Based View
ROSCAs	Rotating Savings and Credit Schemes
SMEP	Small and Micro Enterprise Program
USAID	United States Agency for International Development
US	United States
UATs	User Acceptability Tests

ABSTRACT

Microfinance institutions in Kenya seek to transform mostly to deposit taking microfinance institutions with a view of accessing deposits for the purposes of lending. MFIs often seek to transform to the deposit taking MFIs as a platform to access cheap deposit funds hence further improving 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, enhanced customer service and more products being offered to customers. 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. This study wished to examine the factors influencing the success of transformation of Micro Finance Institutions (MFIs) into deposit taking microfinance institutions in Nakuru County projects. In particular, the role of leadership, organizational culture, business reengineering, and change management practices was examined in enhancing success of the transformation of the MFIs to DTMs. This study utilized the descriptive research design. The target population of this study was the 105 staff working in Microfinance institutions which have undergone transformation in Nakuru county. A sample size of 83 respondents was used for the study andthe structured questionnaire was used for the purpose of data collection. A pilot study of this research was undertaken in Nakuru while the validity of the questionnaire was examined using experts drawn from university lecturers and industry practitioners in the field. The reliability of the questionnaire was examined using the Cronbach alpha coefficient of a threshold of 0.7 and above.The descriptive statistics that were used to better understand the responses included means, standard deviations and frequencies. The multiple linear regression was used for the study. The regression model indicated that a unit increase in leadership and change management practiceswhile other factors are held constant would result in 0.419 and 0.047 increases in success of transformation of MFIs to DTMs respectively. On the other hand, a unit increase in organizational culture and business reengineering while other factors are held constant would result in a 0.077 decrease in success of transformation of MFIs to DTMs respectively. The study was of significance to the MFI transformation managers and researchers in the feild of transformation. The study recommends that more emphasis be placed on the delegation of tasks, decisions communication levels, corporate governance framework and branding aspects for transformation to be successful. Further studies should be carried out on the influence of adoption of new technologies on the succesful transformationofMFIstoDTMs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Micro finance institutions (MFIs) play a critical role in poverty alleviation, financial inclusion and economic empowerment of the financially disadvantaged people (Mugo, 2012). Microfinance refers to the provision of financial services to the low income people who are often excluded from accessing mainstream commercial financial services providers (Kimando & Kihoronce, 2012). Amongst the services offered by MFIs include microcredit, micro savings, micro insurance, deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises

Due to operational and market dynamics, the MFIs across the world have often felt a need to transform. Hernaus (2008) in a study on Generic Process Transformation Model: Transition to Process-based Organization gave a general definition of transformation. The study examined transformation as the pursuit of new and different strategies, structures, processes, rewards, capabilities and resources, supported with new and different core values – new culture. The study also identified three types of transformation that is operational improvement, corporate self-renewal program and strategic transformation. The operational improvement involves the business process reengineering and is concerned with the amendment of operational processes. The corporate self-renewals create processes in place that addresses sustainability in performance in a changing environment. Finally, strategic transformation represents the process of re-establishing competitive advantage in the marketplace by recreating a productive match between core competencies and market opportunities.

The transformation within MFI involve 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.

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 (J. G. 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).

1.2 Statement of the Problem

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.

1.3 Purpose of the Study

The purpose of the study is to examine the factors that influence the micro finance institutions transformation into deposit taking micro finance institutions in Nakuru County, Kenya.

1.4 Objectives of the Study

This study was based on the following specific objectives;

1) To examine the influence of leadership on the transformation of micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions in Nakuru County, Kenya.
2) To establish the influence of organizational culture on the transformation of micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions in Nakuru County, Kenya.

3) To examine the influence of business reengineering on the transformation of micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions in Nakuru County, Kenya.
4) 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.

1.5 Research Questions

The study was guided by the following research questions;

1) How does leadership influence the transformation of microfinance institutions into Deposit Taking Microfinance Institutions in Nakuru County, Kenya?
2) How does organizational culture influence the transformation of micro finance institutions (MFIs) transformation into Deposit Taking Microfinance Institutions in Nakuru County, Kenya?
3) How does business reengineering influence the transformation of microfinance institutions into Deposit Taking Microfinance Institutions in Nakuru County, Kenya?
4) How do change management practices influence the transformation of microfinance institutions into Deposit Taking Microfinance Institutions in Nakuru County, Kenya?

1.6 Significance of the Study

The study was of significance to the Micro Finance Institutions (MFIs), the Central Bank of Kenya (CBK), the county government and the researchers in the area of transformation. The study highlighted the context and critical success factors of the transformation process within MFIs. This information was of value to the researchers in the area of transformation in diverse sectors as it expanded the existing levels of knowledge on the area. The researchers therefore used the information for the purposes of enriching their literature review. The MFIs gained from the study through an understanding of the best practices from peers around the world in

the context of transformation. This was critical in enhancing their success levels while seeking to undertake transformation process within the country. This study was critical in examining in an in-depth manner the factors that affect the performance of the MFIs transforming to DTMs.

1.7 Assumptions of the Study

There are several assumptions that were made by this study that is the study respondents were statistically representative of the MFIs present within Nakuru Town as well as the study met reliability and validity aspects.

1.8 Delimitations of the Study

The scope of the study included the geographical scope, time scope and budget scope. This study was geographically limited to Nakuru town due to the various MFIs that are present as well as limitations in terms of budget and time availability. The study was wholly funded by the researcher and there were no external sponsors of the study. In this context, the study had a budgetary allocation of Ksh 65, 000. The study was being undertaken for the purposes of an academic exercise and therefore in the context of time it was limited to two academic semesters of the University of Nairobi. This corresponded to about six months.

1.9 Limitations of the Study

The study faced challenges in obtaining information from the MFIs in Nakuru due to concerns of data privacy and the purposes of data collection. The management of the MFIs was assured that the collected data was meant for academic purposes only as opposed to commercial interests. The individual respondents were assured of anonymity in their responses and confidentiality of the responses given. The individual respondents were not asked to identify themselves.

1.10 Definitions of Key Terms Used

Business Reengineering; Fundamental rethinking and radical redesign of business to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed.

Change Management; Structured and systematic approach towards achievement of sustainable change in human behavior within an organization

Leadership; The ability to influence a group of people to act in a desired way.

Microfinance; Provision of financial services such as credit, savings, insurance and remittances to the low-income people who are often excluded from accessing mainstream commercial financial services providers.

Organization; An organized body of people with a particular purpose, especially a business, society, association, etc.

Organizational Culture; Collective behavior of people within an organization which is formed through values, visions, norms, systems, beliefs and habits amongst diverse aspects

Organization Transformation; 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

Deposit Taking Microfinance Institution; The financial institutions that provide financial services to the low-income people who are often excluded from accessing mainstream commercial financial services providers and are allowed to collect deposits and is regulated by the Kenya banking act (Republic of Kenya, 2006)

Transformation; Process through which a MFI undergoes to become a regulated institution (DTM)

Successful transformation; The transforming MFI is able to meet the objectives of transformation having a big clientele, ability to attract deposits and investors, giving out of big loans.

1.11 Organization of the Study

The study was divided into five chapters. Chapter one examined the introduction to the study. This chapter component included background of the study, statement of the problem, objectives of the study, scope and limitations of the study amongst other components. Chapter two examined the literature review of the study. The reviewed literature is the one that was related to transformations of Microfinance institutions. This literature review examined diverse components such as theoretical review, empirical review, and conceptual framework and research gaps. Chapter three was composed of the research methodology consisting of research design, population, sampling, data collection instrument and data analysis procedures. Chapter four examined the data findings and analysis while chapter five examined the summary of findings, conclusion, and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This study examined the theoretical review, empirical review, conceptual framework, and research gaps in the area of transformation of MFIs. The theoretical review focused on the theories that have explained how organizations want to realign their resources in a way that maximizes their profit in the market. The empirical review focused on literature that explains how leadership influences success of transforming organizations, how to develop the right culture, business reengineering and change management practices of transformed DTMs.

2.2 Leadership Influence on transformation of MFIs to DTMs

The leadership plays a critical role in the organizational transformation of Micro Finance Institutions (MFIs). Pradesh (2012) in a study on Transformation of MFIs as a Long-Term Process Requiring a Fundamental Change in Management Practices and Culture notes the importance of leadership aspects. In this context, the study indicated that leadership in the process of change must adopt new radical way of doing things. This is due to the need for the organization to develop capabilities to adapt to the new and ongoing changes that are reflective of transformed organization (Fallis, 2013). In the development of these new capabilities, the leaders must be good communicators and have the ability to handle resistance that they may encounter during the transformation process (Pradesh, 2012).

The leadership traits of the leaders and other top management staff are critical to the success of this transformation process. The ability of the leaders to have high emotional intelligence is key to the success of the transformation process (Wu & Wu, 2011). The Emotional Intelligence (EI) refers to a set of abilities that refer in part to how effectively one deals with emotions both

within oneself and others (Fallis, 2013). The emotional intelligence has also been described as one's ability to perceive emotions, to access and generate emotions so as to assist thought, to understand emotions and emotional knowledge, and to reflectively regulate emotions so to promote emotional and intellectual growth (Burch & Lawrence, 2005). The emotional intelligence is critical in a transformation process due to the diverse tension that may be prevalent during the transformation process.

Cultural clash between the old staff and incoming new staff sometimes occur due to diverse issues such as remuneration and positions within the organization for the different set of employees (Mbithi, 2014). Cases of staff being resistant to diverse changes occurring in the organization are also common. The leaders must therefore have high emotional intelligence with a view of having the capacity to effectively handling staff within the context of tension, motivate the staff to achieve common objectives and keep the staff morale within the organization at a high level (Van Niekerk, 2005).

The leaders within the context of the transformation where there are diverse changes occurring within the organization require leaders with the ability to inspire employee engagement (Pawar & Venkatesh, 2014). This is because the process of transformation can be disfranchising to the employees within an organization. The employee engagement refers to the positive attitude held by employee towards the organization and its values. The employee engagement is critical in the transforming organization ability to achieve its mandates and objectives. The role of the communication of the strategic direction of the transforming organization is critical in its success. In this context, the leadership must be in a position to clearly articulate the new missions and visions of the new entity, articulate and live the new behaviors of the organization, and address the arising challenges from their staff (Hernaus, 2008). In other words, the

leadership must act as the change agents and embrace new ways of doing things. In this capacity as the change agent, the leadership must be the bearer of the vision of the new transformed entity. In this role, the leaders must ensure that the organization doesn't veer off from the vision and direction that it has set for itself in the new transformed arena.

2.3 Organizational Culture Influence on Transformation of MFIs to DTMs

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 & 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 et al., 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.

2.4 Business Reengineering Influence on Transformation of MFIs to DTMs

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.

2.5 Change Management Practices Influence on Transformation of MFIs to DTMs

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).

2.6 Theoretical Review

The theoretical framework of the study was based on the resources based view theory and the dynamic capabilities theories.

2.6.1 Resource Based View Theory

This theory focuses on the ability of an organization to grow economically and bases its arguments in the latent resources that a company has. The resource based theory implicitly suggests that the ability of a company to grow depends on the ability to coordinate the resources and focus them in building a competitive advantage(Kiiru, 2015). 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). The argument is that as the company increases its resource base, the ability to grow profits increases with the resources it owns and so are the effectiveness and capabilities of the company. Since resources take different physical forms for tangible resources, their mobile abilities also vary. Similarly, intangible resources on the other hand may be limited by time and bureaucratic constraints. This is known as resource heterogeneity of organizations and it forms the first assumption of the Resource Based View (RBV)(Mbindyo, 2013). The second assumption is pivoted on the fact that this heterogeneity of a company should continue in order to realize growth and profitability.

Just like the paper money resources ought to have certain characteristics in order to make significant impact on the organizational development. Of the many characteristics, resources should be valuable, rare and that cannot be easily imitated. It should also be difficult to substitute the resources before they can finish their goal of adding value to an organization(Bhopal, 2011). In order to attain competitive advantage, the resources ought to

provide substantial “threat” to the competitors as well as give the ability to invite other resources in doing so. Thus, resources have a certain strategic advantage to the organization in creating competitive advantage.

While it might be very beneficial to have such a resource or set of resources in an organization, one of the flaws of the RBV theory is the classification of the resources as a silver bullet for solving a big percentage of an organization’s profitability resources. Additionally, the RBV’s ability can only be extrapolated in dynamic business that has high liquidity and capital ratios as opposed to most middle and small enterprises. The applicability of the theory in a dynamic business environment as opposed to a static business environment has been argued to be limited(Ala, 2013). This is because in a dynamic business environment, the change in diverse resources due to the external environment depreciates their values. Additionally, it is difficult to find business resources that are rare and even if one finds such a resource, it is usually uneconomically expensive. This is attributable to innovative methods of production which exploit most resources.

The resource based view was utilized for this study as the leadership and organizational culture within the organization was considered as key resources that transforming MFIs require.

2.6.2 Dynamic Capabilities Theory

The Dynamic Capability Theory emphasizes on the importance of resource mobilization at the business level in order to address mostly competition. In particular, the ability to pull together external and internal business resources to address changes in the business landscape constitutes the Dynamic Capabilities Theory(Manyumbu et al., 2014). The theory emphasizes not only on the ability to mobilize resources but also on the ability to replicate results so as to

fit in the ever-changing business environment. Dynamic capabilities theory is a business name for measures to address constant change. As such, there should be mechanisms in the business and organizational environments that will inculcate the culture of changing with seasons in order to maintain a competitive advantage of the business. However, this forms the most crucial challenge of business growth in the context of the dynamic capabilities as there is need for the many moving parts in the process to be brought under control and this may take some time. Basically, the theory advocates getting out with the old and embracing the new.

The components that make up the dynamic capabilities of a firm were postulated to be four in total; Learning, reconfiguration, leveraging and integration. Each component works to complement the process of change where Reconfiguration refers to the breaking down of existing mechanism and coming up with other more effective mechanisms that fit the current and possibly future situation(s)(Mugo, 2012). Leveraging follows after reconfiguration where the new methods are transitioned to the existing environment through coordination and recombination of resources to get the most appropriate mix. Leaning involves the monitoring and evaluating the new methods to find areas of improvement and trouble shoot any problems if they exist. Integration comes in after the above three processes where the new ways are incorporated into the organization as the new norm until such a time when there will be a need for change. The cycle forms dynamic capabilities theory.

Dynamic capabilities theory stress on the agility of the firm to change with changing environments. However, it fails to account for the difficulty in corporate changes whose resistant nature may lead to failure to adopt the new ways completely(Akuku, 2009). In this context, the theory will be applicable in small scale firms which have far less moving parts as compared to the big firms and instituting change could prove less difficult.

The theory is applicable in this study because business reengineering and change management practices are aspects impacting on the dynamic capabilities of the MFIs. These aspects impact on the organizations capabilities to sustainably transform into DTMs.

2.7 Conceptual Framework

A conceptual framework indicates the effects of independent variables on the dependent variable. The independent variables in this study were leadership, organizational culture, business reengineering and change management. The dependent variable is success of transformation.

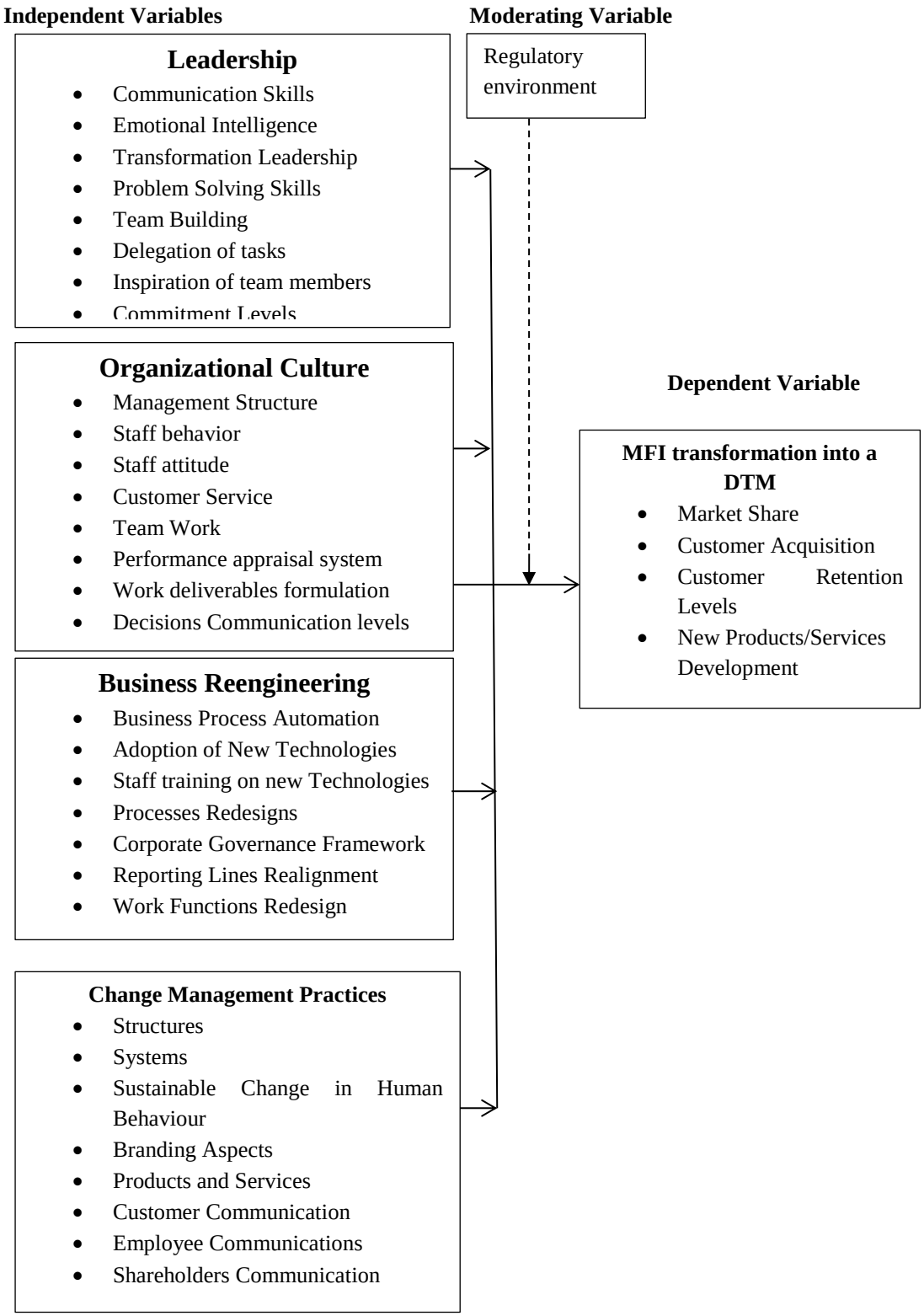

Figure 2.1: Conceptual Framework

2.8 Research Gaps

The research gaps examine the diverse ways in which the current study differs from previous studies in the same subject matter.

Table 2.1: Research Gaps

	Study Topic	Author	Research Objectives	Key Findings	Knowledge Gaps	How Current Study addresses Knowledge Gap
1)	Transformation of MFIs is a long-term process requiring a fundamental change in management practices and culture	Pradesh, (2012)	-To examine the reasons for transformation of MFIs	-The study found diverse reasons necessitating MFI transformation such as; i) offer financial services beyond lending ii) to access capital iii) to comply with new legislation requiring or permitting transformation iv) to gain legitimacy v) to enable employees, clients, and other stakeholders to become owners	-Study doesn't examine the factors leading to success of transformation -Study doesn't focus on Kenyan MFIs -	-Study to examine factors influencing success of transformation of MFIs into DTMs Kenya.
2)	From NGOs to banks: Does institutional transformation alter the business model of Microfinance Institutions?	Espallier et al., (2016)	-To examine why MFIs transform -To examine the models in which the MFIs adopt after transformation	-The study found reasons for transformation as need to minimize funding costs - Study found better corporate governance aspects with transformed MFIs as well as greater scrutiny from the regulators.	-Study doesn't examine the sustainability or success of transformation -Study doesn't focus on Kenyan MFIs	- Study to examine factors influencing success of transformation of MFIs into DTMs Kenya.

	Study Topic	Author	Research Objectives	Key Findings	Knowledge Gaps	How Current Study addresses Knowledge Gap
3)	The transformation of the microfinance sector in India: Experiences, options, and future	Siriaram & Upadhyayula, (2004)	-To examine the experiences of transformation process in MFIs in India	-The study found that amongst the aspects leading to the transformation process are size, diversity, sustainability, focus and taxation aspects of the MFIs	-Study based in India and not amongst Kenyan MFIs -Study doesn't examine the success of the transformation process	Study to examine factors influencing success of transformation of MFIs into DTMs Kenya.
4)	A Detailed Study of Micro Finance as a Tool for Tribal Transformation in Areas of Madhya Pradesh	Bhopal, (2011)	-To examine the role of MFI in assisting in transformation of socio-economic conditions of tribal folks in the district of Hoshangabad	-The study found that the MFIs are positively correlated with the aspect of socio economic conditions of tribal folks	-Study based in India and not amongst Kenyan MFIs -Study doesn't examine the success of the transformation process	- Study to examine factors influencing success of transformation of MFIs into DTMs Kenya.

Source: Researcher (2017)

2.9 Summary of the Literature Review

The leadership plays a critical role in the organizational transformation of Micro Finance Institutions (MFIs). The leadership traits of the leaders and other top management staff are critical to the success of this transformation process. The leaders must have high emotional intelligence with a view of having the capacity to effectively handling staff within the context of tension, motivate the staff to achieve common objectives and keep the staff morale within the organization at a high level.

The organizational culture that needs change in the process of organizational transformation has the capacity to influence the success of the organizational transformation. Organizational culture change brings an element of uncertainty within the organization in regard to job security aspects amongst other aspects. 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.

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 institutional change management is critical in enhancing the success of organizational transformation 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. 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.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology of the study. The chapter therefore examined the research design, target population, sample size and sampling technique, data collection instrument, validity and reliability of the data collection instrument, and data analysis techniques.

3.2 Research Design

The descriptive research design was adopted for this study. The descriptive research design is interested in describing the study phenomenon as it exists on the ground without any manipulation of the variables. 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.

A research design has been defined as the procedures used by researchers to explore relationships between variables (Kothari, 2004). Research design has also been defined as the arrangement of condition from collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Cooper & Schindler, 2003). It has also been defined as the blue print for the collection, measurement and analysis of data (Orodho, 2008).

3.3 Target Population

Population refers to an entire group of individuals, events or objects having a common observable characteristic or entire group of people, events or things of interest that the

researcher wishes to investigate (Cooper & Schindler, 2003). The target population has also been defined as a set of people or events that have a common observable traits that are of interest to the researcher. 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.

3.4 Sample Size and Sampling Technique

The sample refers to a subset of the population which have same characteristics as the population. The sampling is done due to logistical challenges as well as time constraints in accessing the whole population. 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

3.4.1 Sampling Procedure

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.

3.5 Data Collection Instrument

The structured questionnaire was used for the purpose of data collection. The structured questionnaire refers to a questionnaire in which there is a set of options given to the respondents. There are diverse advantages associated with the structured questionnaire that has led to the researcher using them in this study. These advantages include cost effective, ease of administration, ease of analysis using SPSS software, and ease of data collection. The questionnaire was divided into six parts in which the first section had the background information, and the other parts had the variables of the study.

3.6 Pilot Study

A pilot study of this research was undertaken in Nakuru. A pilot study has been defined as a small scale research project that collects data from respondents similar to those used in full study (Sekaran, 2003). The purpose of the pilot study was to ensure examination of specific aspects of the research to ensure increased response rates, reduced missing data, ensure data validity, ensure clarity of questions and elimination of any difficulties that the potential respondents may have when answering the questionnaire in the main study. 10% of the sample size that is 8 respondents were used as recommended by Orodho (2003)

3.6.1 Validity of Research Instrument

Validity has been defined as the ability of an instrument to measure what it sets out to measure or the degree to which a test measures what it purports to measure (Mugenda & Mugenda, 1999). The validity of the questionnaire was examined using experts drawn from university lecturers and industry practitioners in the field.

3.6.2 Reliability of Research Instrument

Reliability of the questionnaire has been defined as the measure of degree to which a research instrument yields consistent results or data after repeated trial (Cooper & Schindler, 2003). The reliability of the questionnaire was examined using the Cronbach alpha coefficient of a threshold of 0.7 and above.

3.7 Data Collection Procedures

The data was collected using a drop and pick method. In this method, the questionnaires were dropped to the potential respondents and picked at a preagreed time inorder to be analyzed. Before issuance of the questionnaires, the potential respondents were issued with an introduction letter that advises the respondents that the study is meant for academic purposes only.

3.8 Data Analysis Techniques

Data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. The collected data was first thoroughly examined and checked for completeness and comprehensibility before being coded for analysis into computer software Statistical Package for Social Scientists (SPSS) version 22. The descriptive statistics that were used to better understand the responses included means, standard deviations and frequencies. Inferential statistic involving the use of correlation analysis were then used to determine the nature of the relationship between variables at a generally accepted conventional significant level of $P < 0.05$. In addition, multiple regression analysis was employed to analyze the relationship between a single dependent variable and several independent variables. The beta

(β) coefficients for each independent variable generated from the model were used to test each of the hypotheses under study. The regression model used in the study is shown below:

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where; Y= Organizational Transformation

X_1 = Leadership

X_2 = Organizational Culture

X_3 =Business Reengineering

X_4 =Change Management Practice

3.9 Operationalization of the Variables

The operationalization of the dependent and independent variables was examined through an examination of objectives, variables, indicators, measurement, measurement scale, data collection instrument, data collection tool, type of analysis, and tool of analysis.

Table 3.2: Operationalization of Variables

Objective	Variable	Indicator	Measurement	Measurement Scale	Data Collection Tool	Type of Analysis	Tool of Analysis
1) To examine the leadership influence on the success of micro finance institutions (MFIs) transformation into Deposit Taking Microfinance Institutions in Nakuru town, Nakuru County, Kenya.	Leadership	• Communication Skills • Emotional Intelligence • Transformation Leaders • Problem Solving Skills • Team Building	-Likert Scale	-Ordinal	Questionnaire	-Descriptive Statistics (mean, frequency distributions, standard deviations) -Inferential Statistics (Regression analysis)	SPSS
2) To establish the influence of organizational culture on the transformation of	Organizational Culture	• Management Structure • Staff behavior • Staff attitude • Customer Service • Team Work	Likert Scale	-Ordinal	Questionnaire	-Descriptive Statistics (mean, frequency distributions, standard deviations)	SPSS

Objective	Variable	Indicator	Measurement	Measurement Scale	Data Collection Tool	Type of Analysis	Tool of Analysis
micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions in Nakuru town, Nakuru County, Kenya.						-Inferential Statistics (Regression analysis)	
3) To examine whether business reengineering influences the transformation of micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions in Nakuru town, Nakuru County, Kenya.	Business Reengineering	• Business Process Automation • Adoption of New Technologies • Staff training on new Technologies • Processes Redesigns • Corporate Governance Framework	Likert Scale	-Ordinal	Questionnaire	-Descriptive Statistics (mean, frequency distributions, standard deviations) -Inferential Statistics (Regression analysis)	SPSS
4) To establish the influence of change	Change Management	• Structures • Systems • Sustainable Change In Human Behavior	Likert Scale	-Ordinal	Questionnaire	-Descriptive Statistics (mean, frequency distributions,	SPSS

Objective	Variable	Indicator	Measurement	Measurement Scale	Data Collection Tool	Type of Analysis	Tool of Analysis
management practices on the transformation of micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions in Nakuru town, Nakuru County, Kenya.		• Branding Aspects • Products and Services				standard deviations) -Inferential Statistics (Regression analysis)	

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter examined the research findings of the four research objectives as well as the data analysis. Both descriptive and inferential statistics were used for data analysis purposes. The descriptive statistics includes the frequency distributions means, and standard deviations while the inferential statistics were undertaken using the regression analysis.

4.2 Response Rate of Respondents

This study utilized a sample size of 83 respondents that was derived through Yaro Yamane 1967 simplified formula. A total of 83 questionnaires were issued to respondents. The returned questionnaires were as 76 as 7 questionnaires hadn't been filled as a result of busy schedules of the respondents. This is despite the researcher having given the respondents time to fill in the questionnaires and agreeing on the time for collection. An additional 8 questionnaires were rejected as a result of being incomplete. Therefore, 68 questionnaires were used for data analysis which was 81.9% of the questionnaires issued. This response rate was deemed sufficient for the generalization of the study as indicated by Kombo & Tromp (2009).

4.3 Background Characteristics of Respondents

The background characteristics were examined using the gender distribution age distribution and the distribution of length of service of the respondents in MFIs.

4.3.1 Gender of Respondents

The gender distribution of the respondents had the male respondents as the majority at 63.8% while the female respondents were 36.2%, as shown in table 4.1.

Table 4.1: Gender Distribution of Respondents

	Frequency	Percentage
Male	44	63.8%
Female	25	36.2%
Total	**69**	**100.0%**

4.3.2 Age of Respondents

The ages of the respondents was of interest in determining thefactors influencing transformation of microfinance institutions into deposit taking micro finance institutions in Nakuru County, Kenya. Table 4.2 presented the distribution of the ages of the respondents.

Table 4.2: Age Distribution of Respondents

	Frequency	Percentage
Below 25 Years	28	40.6%
26-35 Years	21	30.4%
36-45 Years	14	20.3%
Over 45 years	6	8.7%
Total	**69**	**100.0%**

Most of the respondents (40.6%) were aged below 25 years while the least number of respondents (8.7%) were above 50 years. The respondents of ages 26-35 Years and 36-45 Years were 30.4% and 20.3% respectively.

4.3.3 Marital Status of Respondents

The respondents were asked to indicate their marital status. The results were presented in table 4.3.

Table 4.3: Distribution by Marital Status of Respondents

	Frequency	Percentage
Single	23	33.3%
Married	38	55.1%
Divorced	6	8.7%
Separated	2	2.9%
Total	**69**	**100.0%**

Most of the respondents (55.1%) were married followed by the respondents who were single (33.3%). The respondents who were divorced were 8.7%, while those who were separated were 2.9%.

4.3.4 Length of Service of Respondents

The study sought to know the length of time the respondents had worked in MFIs which was examined by grouping the number of years into four categories, that is, 0-5 years, 6-10 years, 11-15 years, and over 15 years. The results were presented in table 4.4.

Table 4.4: Distribution by Length of Service of Respondents

	Frequency	Percentage
0-5 Years	12	17.4%
6-10 Years	24	34.8%
11-15 Years	22	31.9%
Over 15 Years	11	15.9%
Total	**69**	**100.0%**

Most of the respondents (34.8%) had worked at MFIs had worked for 6-10 years followed by those who had worked for 0-5 Years (17.4%), and last were those who had worked for over 15 years who were 15.9%.

4.4 Leadership and Transformation of MFIs to DTMs

Pradesh (2012) in a study on Transformation of MFIs as a Long-Term Process Requiring a Fundamental Change in Management Practices and Culture notes the importance of leadership aspects. The study examined which leadership skills are useful in MFI transformation to DTMs among communication skills, emotional intelligence, transformation leadership, problem solving skills, team building, delegation of tasks, inspiration of team members, and commitment levels. The respondents were asked to choose the level that best explained their situation on a scale of 1-5; where 5= Strongly Agree (SA); 4=Agree (A); 3= Uncertain; 2=Disagree (D) and 1=Strongly Disagree (SD), and the results presented in table 4.5.

Table 4.5: Frequency Distributions of Leadership

	SA (%)	A (%)	U (%)	D (%)	SD (%)
Communication Skills	31.9	46.4	11.6	7.2	2.9
Emotional Intelligence	26.1	31.9	27.5	14.5	0.0
Transformation Leadership	31.9	49.3	7.2	10.1	1.4
Problem Solving Skills	52.2	24.6	14.5	8.7	0.0
Team Building	26.1	47.8	20.3	4.3	1.4
Delegation of tasks	49.3	29.0	15.9	5.8	0.0
Inspiration of team members	44.9	29.0	17.4	8.7	0.0
Commitment Levels	29.0	43.5	27.5	0.0	0.0

In the context of communication skills, most of the respondents (46.4%) agreed that it useful in MFI transformation to DTMs, with an additional 31.9% who chose strongly agree asserting the same. The respondents, who were not sure, disagreed and strongly disagreed were 11.6%, 7.2% and 2.9% respectively. Emotional intelligence was also found to be useful in MFI transformation to DTMs as supported by 26.1% and 31.9% of the respondents who chose strongly agree and agree respectively. Transformation leadership was also found to be useful in MFIs transformations to DTMs with 31.9% and 49.3% of the respondents choosing strongly agree and agree respectively. This is because the process of transformation can be disfranchising to the employees within an organization therefore the organization requires leaders with the ability to inspire employee engagement (Pawar & Venkatesh, 2014).

Problem solving skills, delegation of tasks and inspiration of team members had most of the respondents choosing strongly agree (52.2%, 49.3% and 44.9% respectively) which indicated that each of the aspects was very useful in MFI transformation to DTMs. Additionally, these aspects had agreed responses, that is, 24.6%, 29.0% and 29.0% respectively, which supported their usefulness in MFI transformation to DTMs.

Team building and commitment levels received a higher number of agree responses (47.8% and 43.5% respectively) indicating that they were useful in MFI transformation to DTMs. None

of the respondents strongly disagreed that the aspects of emotional intelligence, problem solving skills, delegation of tasks, inspiration of team members, and commitment levels were useful in MFI transformation to DTMs.

The average usefulness of leadership skills in MFI transformation to DTMs among communication skills, emotional intelligence, transformation leadership, problem solving skills, team building, delegation of tasks, inspiration of team members, and commitment levels was examined. The mean scores from 1 to 1.5 were interpreted as tendency to strongly disagree on average, mean scores from 1.501 to 2.500 were interpreted as tendency to disagree on average, and mean scores from 2.501 to 3.500 were interpreted as tendency to be uncertain on average. The mean scores from 3.501 to 4.500 were interpreted as the respondents tended to on average agree with the given metric while mean scores from 4.501 to 5.000 were interpreted as the respondents on average tended to strongly agree. These mean scores and standard deviations were as presented in table 4.6.

Table 4.6: Means and Standard Deviations of Leadership

	Min.	**Max.**	**Mean**	**Std. Dev.**
Communication Skills	1	5	3.971	1.000
Emotional Intelligence	2	5	3.696	1.019
Transformation Leadership	1	5	4.000	0.970
Problem Solving Skills	2	5	4.203	0.994
Team Building	1	5	3.928	0.879
Delegation of tasks	2	5	4.217	0.921
Inspiration of team members	2	5	4.101	0.987
Commitment Levels	3	5	4.015	0.757

Delegation of tasks scored the highest mean score (4.217) which indicated that on average the respondents tended to agree that it was more useful in MFI transformation to DTMs than the other metrics on leadership skills. On the other hand, the respondents on average tended to agree that emotional intelligence was useful in MFI transformation to DTMs even though it

was the least useful on average among the metrics on leadership skills. This is because leaders with high emotional intelligence have the capacity to effectively handle staff within the context of tension, motivate the staff to achieve common objectives and keep the staff morale within the organization at a high level (Van Niekerk, 2005).

The respondents tended to agree that all other metrics on leadership skills were useful, that is, communication skills (mean score=3.971), transformation leadership (mean score=4.000), problem solving skills (mean score=4.203), team building (mean score=3.928), inspiration of team members (mean score=4.101), and commitment levels (mean score=4.015).This implied that leadership skills are important for MFIs to be successful in transformation into DTMs. This was consistent with a study by Fallis (2013)which indicated that leadership in the process of change must adopt new radical way of doing things. This is due to the need for the organization to develop capabilities to adapt to the new and ongoing changes that are reflective of transformed organization.

The standard deviations were examined to determine whether there was consensus among the respondents on whether leadership skills were useful in MFI transformation to DTMs. The standard deviation results were interpreted as responses were closely distributed around the mean implying high consensus for standard deviation from 0 to 0.500, responses were moderately distributed around the mean implying moderate consensus for standard deviation of 0.501 to 0.999, and responses were widely distributed around the mean implying no consensus for standard deviation of 1 and above on a given metric.

In this context, there was no consensus on the usefulness of communication skills and emotional intelligence in MFIs transformation to DTMs as they had standard deviations of 1.000 and 1.019 respectively. There was moderate consensus on the usefulness of all the other

metrics on leadership skills in MFIs transformation to DTMs, as the responses on each metric were moderately distributed around the mean, that is, transformation leadership(0.970), problem solving skills (0.994), team building (0.879), delegation of tasks (0.921), inspiration of team members (0.987), and commitment levels (0.757).

4.5 Organizational Culture and Transformation of MFIs to DTMs

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 4.7.

Table 4.7: 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

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.

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 4.8.

Table 4.8: 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 respondents on average tended to agree that decisions communication levels were useful inMFI 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.

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).

4.6 Business Reengineering and Transformation of MFIs to DTMs

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 4.9.

Table 4.9: 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.Theuncertain 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 4.10.

Table 4.10: 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.

4.7 Change Management Practices and Transformation of MFIs to DTMs

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 4.11.

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 4.11: 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,

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 results were presented in table 4.11.

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 4.12: 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.

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.

4.8 Transformation of MFIs into DTMs

The study sought to examine the success of MFIs as a result of their transformation to DTMs by getting responses on various metrics. These metrics included increase in market share, customer acquisition, customer retention levels, new products/services development, and employee retention levels. The distributions of the responses were presented in table 4.13.

Table 4.13: Frequency Distributions of Transformation of MFIs to DTMs

	SA (%)	A (%)	U (%)	D (%)	SD (%)
Increase in Market Share	17.4	34.8	39.1	8.7	0.0
Customer Acquisition	20.3	33.3	29.0	17.4	0.0
Customer Retention Levels	37.7	36.2	18.8	7.2	0.0
New Products/Services Development	27.5	53.6	18.8	0.0	0.0
Employee Retention Levels	20.3	36.2	29.0	14.5	0.0

Most of the respondents (53.6%) who chose the agree prompt felt that transformation of MFIs to DTMs had resulted in new products/services development, further supported by 27.5% who chose strongly agree and there being no disagree and strongly disagree responses. Customer retention levels had majority of the respondents (37.7%) choosing strongly agree, 36.2% choosing agree, 18.8% being uncertain and 7.2% disagreeing that MFIs had increased customer retention as a result of transforming into DTMs.

In the context of increase in market share, most of the respondents (39.1%) were not sure whether market share of MFIs increased as a result of their transformation into DTMs while 34.8% of the respondents agreed that there was an increase in market share. A cumulative percentage of 53.3% of the respondents (20.3%=strongly agree, 33.3%=agree) felt that MFIs had been successful through customer acquisition as a result of transformation to DTMs while 29.0% were uncertain and 17.4% (disagree) felt they hadn't been successful through customer acquisition. The MFIs had increased employee retention levels as a result of transformation to DTMs as affirmed by 36.2% who chose agree and 20.3% who chose strongly agree prompts.

There was no strongly disagreed response as to whether MFIs were successful as a result of transformation into DTMs across all the metrics.

The study sought to examine the gains of MFIs on average as a result of their transformation to DTMs by getting responses on various metrics. This was done by examining the mean scores of the metrics which included mean scores for increase in market share, customer acquisition, customer retention levels, new products/services development, and employee retention levels, results were presented in table 4.14.

Table 4.14: Means and Standard Deviations of Transformation of MFIs to DTMs

	Min.	Max.	Mean	Std. Dev.
Increase in Market Share	2	5	3.609	0.878
Customer Acquisition	2	5	3.565	1.007
Customer Retention Levels	2	5	4.044	0.930
New Products/Services Development	3	5	4.087	0.680
Employee Retention Levels	2	5	3.623	0.972

The mean scores for individual from the highest scored mean to the lowest were 4.087 for new products/services development, 4.044 for customer retention levels, 3.609 for increase in market share, 3.623 for employee retention levels, and 3.565 for customer acquisition. This indicated that on average the MFIs had gained mostly from development of new products/services as a result of their transformation to DTMs, while customer acquisition had been the least gain on average.

The responses for customer acquisition were widely distributed around the mean with standard deviation of 1.007 which implied there was no consensus among the respondents (standard deviation greater than 1) whether the MFIs had acquired customers as a result of their transformation to DTMs. The responses were moderately distributed around the mean for increase in market share (std. dev.=0.878), customer retention levels (std. dev.=0.930), new products/services development (std. dev.=0.680), and employee retention levels (std.

dev.=0.972). This implied that there was moderate consensus that MFIs had increase in market share, customer retention levels had improved, there was new products/services development, and improved employee retention levels as a result of their transformation into DTMs.

4.9 Multiple Linear Regression

The study examined the relationship between the four independent variables with the dependent variable by determining the multiple linear regressions. This gave a multiple correlation coefficient (denoted as R) of 0.517, as shown in Table 4.15.

Table 4.15: Model Summaryfor Leadership, Change Management, Business Reengineering and Organizational Culture

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.517[a]	.268	.222	.40743

a. Predictors: (Constant), Leadership, Change Management, Business Reengineering, Org. Culture

The multiple correlation coefficient of 0.517 indicated that the independent variables, that is, leadership, organizational culture, business reengineering, change management practice were positively correlated withtransformation of MFIs to DTMs.The coefficient of determination (denoted as R2) was 0.268 which implies that the variance in transformation of MFIs to DTMs can be associated up to 26.8% with the independent variables (leadership, organizational culture, business reengineering, and change management practice). This therefore implies that 73.2% of the variance intransformation of MFIs to DTMs can be associated with other factors not considered in the current regression model.

The overall viability of the regression model was checked by undertaking the analysis of variance (ANOVA), and results presented in table 4.16.

Table4.16: ANOVA[a] for Leadership, Change Management, Business Reengineering and Organizational Culture

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	3.882	4	.970	5.846	.000[b]
1	Residual	10.624	64	.166		
	Total	14.506	68			

a. Dependent Variable: MFI

b. Predictors: (Constant), Leadership, Change Management, Business Reengineering, Org. Culture

The p value from the ANOVA was 0.000 which indicated that there was no likelihood or probability (0.0%) of the regression model giving a wrong prediction. The p value of 0.000 was less than the 0.05 threshold which implied that the model was reliable.

The coefficients of the individual independent variables (leadership, organizational culture, business reengineering, and change management practice) were examined. The results with the coefficients were presented in table 4.17.

Table 4.17:Coefficients[a] for Leadership, Change Management, Business Reengineering and Organizational Culture

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	3.978	.834		4.770	.000
Leadership	.419	.116	.399	3.621	.001
Organization Culture	-.077	.077	-.111	-1.010	.316
Business Reengineering	-.456	.192	-.311	-2.379	.020
Change Management	.047	.151	.040	.311	.757

a. Dependent Variable: MFI

The resulting regression model was;

Transformation of MFIs to DTMs =3.978 + 0.419 (Leadership) - 0.077 (Organizational Culture) - 0.456 (Business Reengineering) + 0.047 (Change Management Practice)

This regression model indicated that a unit increase in leadershipwhile other factors are held constant would result in a 0.419increase in success of transformation of MFIs to DTMs.

Additionally, a unit increase in change management practice would result in a 0.047 increase in success of transformation of MFIs to DTMs with the other metrics held constant. This implies that leadership and change management practice positively influence the transformation of MFIs to DTMs individually.

A unit increase in organizational culture while other factors are held constant would result in a 0.077 decrease in success of transformation of MFIs to DTMs. Also, a unit increase in business reengineeringwould result in a 0.456 decrease in success of transformation of MFIs to DTMs with the other metrics held constant. The regression model therefore implies that organizational culture and business reengineering cannot positively influence the transformation of MFIs to DTMs individually.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, RECOMMENDATIONS AND SUGGESTIONS

5.1 Introduction

The study was interested in determining the factors that influence transformation of micro finance institutions (MFIs) into Deposit Taking Microfinance Institutions (DTMs) in Nakuru County, Kenya. In this context, the study restricted itself to determining the influence of specific aspects, that is, leadership, organizational culture, business reengineering, and change management practices on the transformation of MFIs into DTMs in Nakuru County, Kenya.

5.2 Summary of the Findings

The average usefulness of leadership skills in MFI transformation to DTMs among communication skills, emotional intelligence, transformation leadership, problem solving skills, team building, delegation of tasks, inspiration of team members, and commitment levels was examined. Respondents on average were inclined to agree that leadership was useful in the transformation of MFIs to DTMs since mean scores for all metrics under leadership had means between 3.501 and 4.500.

Delegation of tasks scored the highest mean score which indicated that on average the respondents were inclined to agree that it was more useful in MFI transformation to DTMs than the other metrics on leadership skills. Emotional intelligence had the lowest mean score among the metrics in the leadership matrix implying that on average it was perceived to have less influence in MFI transformation to DTMs than the other metrics.

The standard deviations were examined to determine whether there was consensus among the respondents on whether leadership skills were useful in MFI transformation to DTMs. In this

context, there was no consensus on the usefulness of communication skills and emotional intelligence in MFIs transformation to DTMs as they had standard deviations above 1. There was moderate consensus (standard deviations between 1.501 and 1) on the usefulness of all the other metrics on leadership skills in MFIs transformation to DTM as the responses on each metric were moderately distributed around the mean. These metrics were transformation leadership, problem solving skills team building, delegation of tasks inspiration of team members, and commitment levels.

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 using the mean scores and standard deviations of various metrics respectively. These metrics included management structure, staff behavior, staff attitude, customer service, team work, performance appraisal system, work deliverables formulation, and decisions communication levels.

On average respondents were inclined to agree (means between 3.501 and 4.500) that all the metrics on organizational culture were useful in MFIs transformation into DTMs. 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.

With the exception of teamwork, there was moderate consensus that all metrics of the organizational culture matrix were useful in MFIs transformation into DTMs standard deviation (between 1.501 and 1). 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).

The average opinions on whether various metrics on business reengineering aspects were useful in MFI transformation to DTMs were examined using mean scores and 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 they ranged between 3.501 and 4.500. Corporate governance scored the highest mean among the business reengineering metrics which indicated that on average, the perception was it was the most influential in the context of business reengineering in transformation of MFIs to DTMs. The respondents had moderate consensus on some metrics while there was no consensus on others. Adoption of new technologies, corporate governance framework, reporting lines realignment, and work functions redesign had responses that were moderately distributed around the mean 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 which implied that there was no consensus (standard deviation greater than 1) among the respondents on their usefulness in transformation of MFIs to DTMs.

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 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.

The order of influence from the most influenced metric on change management practices to the least influenced was branding aspects, customer communication, employee communication, sustainable change in human behavior, structures, shareholders communication, products and services and systems. Branding aspects therefore had the highest mean score implying that on average it was generally perceived to be the most useful among the change management practices metrics of this study.

There was no consensus (standard deviation greater than 1) among the respondents on whether systems and employee communications 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.

The study sought to examine the gains of MFIs on average as a result of their transformation to DTMs by getting responses on various metrics. This was done by examining the mean scores of the metrics which included mean scores for increase in market share, customer acquisition, customer retention levels, new products/services development, and employee retention levels. In this context, on average, the respondents were inclined to agree (means from 3.501 to 4.500) that the MFIs had gained in respect to each As a result of their transformation to DTMs. The MFIs had gained mostly from development of new products/services (highest mean score) as

a result of their transformation to DTMs, while customer acquisition had been the least gain (lowest mean score) on average.

The responses for customer acquisition were widely distributed around the mean with standard deviation of 1.007 which implied there was no consensus among the respondents (standard deviation greater than 1) whether the MFIs had acquired customers as a result of their transformation to DTMs. There was moderate consensus (standard deviation from 1.501 to 1) that MFIs had increase in market share, customer retention levels had improved, there was new products/services development, and improved employee retention levels as a result of their transformation into DTMs.

5.3 Conclusions

The study concluded that leadership positively influences the success of transformation of MFIs to DTMs on its own. In this context, the study concluded that delegation of tasks had greater influence on the success of transformation of MFIs to DTMs than other metrics due to its high mean.

Similarly, 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.

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.

Business reengineering negatively influences the success of transformation of MFIs into DTMs individually. In this context, 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 also concluded that leadership is the most influential on success of transformation of MFIs to DTMs followed by change management practices, organizational culture and the least influential is business reengineering.

In respect to the consensus levels on the influence of the different independent variables on the success of transformation of MFIs to DTMs, the study concluded that organizational culture had the highest consensus amongst respondents followed by leadership, change management practices and finally business reengineering.

5.4 Recommendations

The study recommends that more emphasis be placed on the delegation of tasks, decisions communication levels, corporate governance framework and branding aspects for transformation of MFIs to DTMs to be successful. This is because these aspects generally had greater influence in respect to their means.

The independent variables that had a positive regression coefficient implying a positive influence on with transformation of MFIs to DTMs were determined. Further, the regression coefficients for were checked for significance. The variables that satisfied these conditions were those on leadership and change management practices. The indicators of these variables

were checked to determine the indicators with a high mean and low standard deviation. The indicators which satisfied this examination were stakeholder's communication in relation to change management practices, and commitment levels in relation to leadership. The study therefore recommends that people in leadership of the MFIs during transformation into DTMs highly commit to the process for there to be a transformation. The study also recommends that stakeholders be involved in the transformation process of the MFIs to DTMs through timely and proper communication throughout the transformation process.

5.5 Suggestions for Further Studies

The study suggests further examination of the influence of adoption of new technologies on the transformation of MFIs to DTMs. The study also suggests for further studies, an examination of the effect of products and services design on the transformation of MFIs to DTMs. Additionally, further examination of the influence of business process automation on the transformation of MFIs to DTMs should be carried out.

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APPENDIX A

INTRODUCTORY LETTER

Dear Respondents

I am a Masters of Arts in Project Planning and Management student at University of Nairobi conducting a research on: Factors Influencing the Success of Micro Finance Institutions Transformation into Deposit Taking Micro Finance Institutions in Nakuru Town, Nakuru County, Kenya. I hereby request you for the below stated information required for me to achieve my research objectives as part of requirement of my masters' degree.

Information offered will be treated confidentially and used for the purpose of this research only.

The findings of the research will ultimately help improve the performance of this company and especially the effectiveness of initiating and implementing business strategies.

Regards,

Michael Runji

APPENDIX B

QUESTIONNAIRE FOR THE DTM EMPLOYEES

Instructions: Please complete the following questionnaire appropriately.

PART A:

1)	What is your gender?	Male	[ ]
		Female	[ ]
2)	What is your age bracket?	Below 25 Years	[ ]
		26-35 Years	[ ]
		36-45 Years	[ ]
		Over 45 Years	[ ]
3)	What is your marital status?	Single	[ ]
		Married	[ ]
		Divorced	[ ]
		Separated	[ ]
3)	How long have you worked in MFIs?	0-5 years	[ ]
		6-10 years	[ ]
		10-15 years	[ ]
		Over 15 years	[ ]

PART B:

The following are items in relation to the leadership skills matrix. In a scale of 1-5; where 5= Strongly Agree (SA); 4=Agree (A); 3= Uncertain; 2=Disagree (D) and 1=Strongly Disagree (SD), please tick (√) where appropriate, the level that best explains your situation.

	The following leadership skillsare useful in MFI transformation to DTMs;	**SA**	**A**	**U**	**D**	**SD**
5)	Communication Skills					
6)	Emotional Intelligence					
7)	Transformation Leadership					
8)	Problem Solving Skills					
9)	Team Building					
10)	Delegation of tasks					
11)	Inspiration of team members					
12)	Commitment Levels					

PART C:

The following are items in relation to the organizational culture. In a scale of 1-5; where 5= Strongly Agree (SA); 4=Agree (A); 3= Uncertain; 2=Disagree (D) and 1=Strongly Disagree (SD), please tick (√) where appropriate, the level that best explains your situation.

	The following organizational culture aspects are useful in MFI transformation to DTMs;	**SA**	**A**	**U**	**D**	**SD**
13)	Management Structure					
14)	Staff behavior					
15)	Staff attitude					
16)	Customer Service					
17)	Team Work					
18)	Performance appraisal system					
19)	Work deliverables formulation					
20)	Decisions Communication levels					

PART D:

The following are items in relation to the business reengineering. In a scale of 1-5; where 5= Strongly Agree (SA); 4=Agree (A); 3= Uncertain; 2=Disagree (D) and 1=Strongly Disagree (SD), please tick (√) where appropriate, the level that best explains your situation.

	The following business reengineering aspects are useful in MFI transformation to DTMs;	**SA**	**A**	**U**	**D**	**SD**
21)	Business Process Automation					
22)	Adoption of New Technologies					
23)	Staff training on new Technologies					
24)	Processes Redesigns					
25)	Corporate Governance Framework					
26)	Reporting Lines Realignment					
27)	Work Functions Redesign					
28)	Products and Services redesign					

PART E:

The following are items in relation to change management aspects. In a scale of 1-5; where 5= Strongly Agree (SA); 4=Agree (A); 3= Uncertain; 2=Disagree (D) and 1=Strongly Disagree (SD), please tick (√) where appropriate, the level that best explains your situation.

	The following change management aspects are useful in MFI transformation to DTMs;	**SA**	**A**	**U**	**D**	**SD**
29)	Structures					
30)	Systems					
31)	Sustainable Change In Human Behavior					
32)	Branding Aspects					
33)	Products and Services					
34)	Customer Communication					
35)	Employee Communications					
36)	Shareholders Communication					

PART F:

The following are items in relation to the MFI transformation. In a scale of 1-5; where 5= Strongly Agree (SA); 4=Agree (A); 3= Uncertain; 2=Disagree (D) and 1=Strongly Disagree (SD), please tick (√) where appropriate, the level that best explains your situation.

	The MFI has gained the following in the transformation to DTMS	**SA**	**A**	**U**	**D**	**SD**
37)	Increase in Market Share					
38)	Customer Acquisition					
39)	Customer Retention Levels					
40)	New Products/Services Development					
41)	Employee Retention Levels					

Thank you for taking time in filling this questionnaire.

APPENDIX C

INTERVIEW GUIDE FOR DTM MANAGEMENT

(i) What leadership do you think has been instrumental in the transformation from MFIs to DTMs?

(ii) What organizational culture do you think has been instrumental in the transformation from MFIs to DTMs?

(iii) What business reengineering aspects do you think has been instrumental in the transformation from MFIs to DTMs?

(iv) What change management do you think has been instrumental in the transformation from MFIs to DTMs?

APPENDIX D

INTRODUCTION LETTER FROM THE UNIVERSITY

UNIVERSITY OF NAIROBI
COLLEGE OF EDUCATION AND EXTERNAL STUDIES
SCHOOL OF CONTINUING AND DISTANCE EDUCATION
DEPARTMENT OF EXTRA - MURAL STUDIES

Tel 051 - 2210863

P. O Box 1120, Nakuru
27th April 2017

Our Ref: *UoN/CEES/NKUEMC/1/12*

To whom it may concern:

RE: MICHAEL NJIRU RUNJI – L50/84268/2015

The above named is a student of the University of Nairobi at Nakuru Extra-Mural Centre Pursuing a Masters degree in Project Planning and Management.

Part of the course requirement is that students must undertake a research project during their course of study. He has now been released to undertake the same and has identified your institution for the purpose of data collection on "Factors Influencing Successful Transformation of Microfinance Institutions into Deposit Taking Microfinance Institutions in Nakuru County Kenya."

The information obtained will strictly be used for the purpose of the study.

I am for that reason writing to request that you please assist him.

NAKURU EXTRA-MURAL CENTRE
RESIDENT LECTURER
P.O. Box 1120
NAKURU
UNIVERSITY OF NAIROBI

Yours Faithfully,

Mumo Mueke
Ag. Resident Lecturer
Nakuru Extra-Mural Centre

APPENDIX E

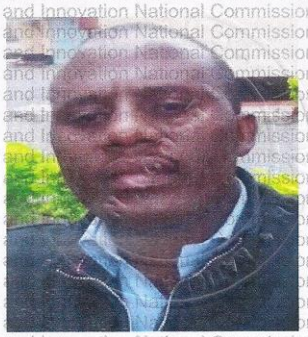
RESEARCH PERMIT

THIS IS TO CERTIFY THAT:
MR. MICHAEL NJIRU RUNJI
of UNIVERSITY OF NAIROBI, 0-60100
embu,has been permitted to conduct
research in *Nakuru County*

on the topic: *FACTORS INFLUENCING ORGANIZATIONAL TRANSFORMATION PROJECTS AMONGST KENYAN MICRO FINANCE INSTITUTIONS: A CASE OF MICROFINANCE INSTITUTIONS IN NAKURU TOWN, NAKURU COUNTY*

for the period ending:
6th July,2018

Permit No : NACOSTI/P/17/39050/17766
Date Of Issue : 6th July,2017
Fee Recieved :Ksh 1000



.....
Applicant's Signature

.....
Director General
National Commission for Science, Technology & Innovation

APPENDIX F

TURNITIN

FACTORS INFLUENCING SUCCESSFUL TRANSFORMATION OF MICROFINANCE INSTITUTIONS INTO DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN NAKURU COUNTY, KENYA.

ORIGINALITY REPORT

%9	%7	%1	%5
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to Kenyatta University Student Paper	%1
2	cprenet.com Internet Source	%1
3	www.indianresearchjournals.com Internet Source	%1
4	bib.irb.hr Internet Source	<%1
5	D'Espallier, Bert, Jann Goedecke, Marek Hudon, and Roy Mersland. "From NGOs to Banks: Does Institutional Transformation Alter the Business Model of Microfinance Institutions?", World Development, 2016. Publication	<%1
6	Submitted to Regenesys Business School Student Paper	<%1
7	Submitted to Midlands State University Student Paper	<%1

29/2/2022.

FACTORS INFLUENCING SUCCESSFUL TRANSFORMATION OF MICROFINANCE INSTITUTIONS INTO DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN NAKURU COUNTY, KENYA.

by Michael N. Runji

FILE	MICHAELNJIRU_THESIS.DOCX (187.69K)		
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