

**CHALLENGES FACING THE MINISTRY OF FINANCE IN THE
ADOPTION OF AUTOMATED FINANCIAL SYSTEMS**

By

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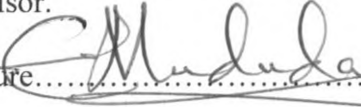
DECLARATION

I declare that this project work is my work and has not been submitted for a master degree award in any other university.

Signature.......... Date.....11-11-2009.....

Muriuki, Moses. P. Gitari

This project has been submitted for examination with my approval as university supervisor.

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DEDICATION

To my wife Ann, my sons Alex and Samuel for their patience, prayers and love.

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I am grateful to the Almighty God for giving me the strength and perseverance through the research project work since it was challenging and trying.

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ABSTRACT

This study is an assessment of the challenges faced in the adoption of Automated Financial Systems (AFS) such as Integrated Financial Management Information Systems (IFMIS) where the ministry of finance is taken as a case study. These challenges originate from the difficulties inherent in the management of any change process. Though the Government of Kenya has realized the importance of AFS towards efficient and effective service delivery and though several studies and consultative workshops have been carried out in an effort to prepare a road map for introduction and implementation of these AFS applications, there has been numerous challenges. These challenges include, resistance to change, institutional challenges, political challenges, technical challenges and human resource and capacity requirements. This study aimed at determining the extent of challenges facing the ministry of finance in the adoption of Automated Financial Systems (AFS).

This study adopted a descriptive case study design and it focused on specific ministry, the Ministry of Finance. However, the researcher collected data from twelve key persons from three departments and these include accountant general, procurement and government information technology. A descriptive case study enabled an in-depth understanding of the phenomena. An interview guide was used for data collection and the data was analyzed by use of descriptive and inferential statistics. It was then be presented using graphs and charts.

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LIST OF ACRONYMS

AFS-Automated Financial Systems

AGD- Accountant General's Department

G.O.K- Government of Kenya

GITS - Government Information Technology Services

ICT-Information and Communication Technology

IFMIS- Integrated Financial Management Information Systems

IT- Information Technology

PMF- Public Financial Management

SRQ- Self Reporting Questionnaire

WAN- Wide Area Network

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Several developing countries are realizing the role automation can play in the governance sector, and are putting into practice innovative ICT models that may be technologically simple but are drastically changing the way information is distributed in the society. This calls for proper understanding of the process of managing change. No matter whether a change is of major proportions or is objectively rather small, the change manager must anticipate that people in the organization are going to find reasons to resist changes. It is a basic tenet of human behavior that any belief or value that has been previously successful in meeting needs will resist change. This applies even if there are better more successful alternatives to meet those needs.

Effective change management that makes all employees participate is essential in our world of turbulence and of shorter cycles of innovation. Changes may affect every industry and every organizational function. In every organization, management knows about the external environment and the vision of the organization. This knowledge is the basis for developing appropriate strategies. Although challenging, this is the easier part. Nevertheless, management will only be able to successfully implement a new strategic direction, if they manage to gain the commitment of everyone within the organization. The point is to develop processes that enable all employees to learn about change and that to develop a culture of dialogue between management and workforce (Oliver, 2001).

1.1.1 Automated Financial Systems

Automated Financial System (AFS) is the undisputed market leader in lending and treasury management solutions, enabling financial institutions and companies from all industries to increase revenue, reduce cost and gain competitive advantage. Through the use of its superior technology coupled with unparalleled lending and treasury management expertise AFS has differentiated itself in the market in terms of its ability to provide value to its customers in the form increased revenue reduced cost and competitive advantage. There are many models of AFS but the ministry of finance has adopted Integrated Financial Management Information Systems (IFMIS) as its preferred system for its financial management requirements.

The introduction of Integrated Financial Management Information Systems (IFMIS) has become a core component of financial reforms to promote efficiency, security of data management and comprehensive financial reporting. IFMIS provide an integrated computerized financial package to enhance the effectiveness and transparency of public resource management by computerizing the budget management and accounting system for a government. It consists of several core sub-systems which plan, process and report on the use of public resources. The scope and functionality of IFMIS can vary across countries, but sub-systems normally include accounting, budgeting, cash management, debt management and related core treasury systems. In addition to these core subsystems, some countries have chosen to expand their IFMIS with non core sub systems such as tax administration, procurement management, asset management, human resource and pay roll systems, pension and social security systems and other possible areas seen as

supporting the core modules. The scale of IFMIS may also vary and be limited to specific country-level institutions such as the Ministry of Finance. However, IFMIS is generally meant to be used as a common system across government institutions, including in the more ambitious schemes for federal, state and local governments. The integration of IFMIS across the board ensures that all users adhere to common standards, rules and procedures, with the view to reducing risks of mismanagement of public resources (Transparency International, 2009).

1.1.2 Ministry of Finance

The Ministry of Finance derives its mandate from the Constitution of Kenya, Cap VII Sections 99-103 which provides for proper budgetary and expenditure management of government financial resources. In addition, Parliament, over the years has enacted 49 Acts to which the Ministry of Finance is a custodian thereby adding more responsibilities to the Ministry.

The functions of the Ministry of Finance are strategic in several ways. As a main function, the Ministry is charged with the responsibility of formulating financial and economic policies. It is also responsible for developing and maintaining sound fiscal and monetary policies that facilitate socio-economic development. This responsibility makes the Ministry strategic and central to the country's economic management, as all sectors of the economy look upon the Ministry to create an enabling environment in which they can operate effectively and efficiently. The Ministry regulates the financial sector which is central to the development of the country and on which all other sectors depend for investment resources (G.O.K, 2008).

Another strategic responsibility of the Ministry is the management of revenues, expenditures and borrowing by the government. The Ministry must ensure that it mobilizes adequate resources to support government programmes and activities. Consequently, the Ministry has the task of developing sound fiscal policies that ensure sustainable budget deficits. In addition the Ministry must ensure that government expenditure is within the revenue collected to reduce domestic borrowing, which tends to cause negative ripples in economic management.

The Ministry is also strategic as far as bilateral and multilateral development financing and technical assistance is concerned. Given the need for support from development partners to enhance the country's economic recovery and poverty reduction efforts, the performance of the Ministry in effectively coordinating this support cannot be underscored. The Ministry must therefore, provide direction in the identification, planning and management of donor support to ensure that it is targeted to those areas of the economy that need it most. The Ministry coordinates government ministries/departments in the preparation of the annual national budget. It is the responsibility of the Ministry to initiate and guide all ministries/departments to prepare their ministerial budgets. The Ministry also provides Accounting, Auditing, IT, Insurance, Pensions, Procurement, Clearing and Forwarding services, and Divestiture services among others to other government ministries/departments.

The Ministry has established an elaborate network through its established departments, and sector institutions, to effectively deliver on its mandate (G.O.K, 2008).

1.2 Problem Statement

Technology does play an important role- the role of making possible the strategic use of information. As noted in literature review, IFMIS is not about technology; instead it is about identifying what are the key information needs that need to be fulfilled, and then envisaging models by which these needs could be fulfilled appropriately and with ease. ICT plays the important role of powering these models, making possible information flows in volumes and speeds which may not be possible, or in volumes and speed using conventional communication means.

Though the Government of Kenya has realized the importance of IFMIS towards efficient and effective service delivery, little has been done to effectively synthesize challenges with actual country experiences to identify the most appropriate strategies with respect to IFMIS project design, management, monitoring and evaluation. A 2006 paper by the Kennedy School of Government presents a case study of Ethiopia as an illustration of a successful and to some extent unconventional approach to automating public financial systems. Edwin (2008) discussed the subject of “best practices” for designing and implementing Integrated Financial Management Information Systems (IFMIS) and how to put them into place in specific environments in developing and transitional countries as well as in conflict and post-conflict situations. The IFMIS provides a critical financial management solution for countries whose administrative and economic infrastructure is obsolete, or has been destroyed through war and years of conflict. Another study by Kariuki (2008) in her study on effects of IFMIS on financial operations of government of Kenya surveyed selected government departments in Nairobi. The paper investigated the

extent to which IFMIS has led to accountability for resources, budgetary controls, and motivation of accounting staff. However, in spite of these studies on IFMIS none has fully studied the challenges of adopting IFMIS and more specifically in the ministry of finance in Kenya. Therefore, by undertaking this study the researcher will be bridging an evident research gap.

1.3 Objectives of the Study

The objective of the study was to determine the challenges facing the ministry of finance in managing change from legacy accounting systems to integrated financial management information systems (IFMIS).

1.4 Significance of the Study

This research project paper will inform those charged with management of accounting system in the ministry of finance on how to manage similar changes in the future thus increasing performance and flexibility. Upon completion the study will also contribute to the existing body of knowledge which can be used as reference point by academicians, scholars and researchers.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Change is a common thread that runs through all businesses regardless of size, industry and age. Our world is changing fast and, as such, organizations must change quickly too. Organizations that handle change well thrive, whilst those that do not may struggle to survive. The concept of “change management” is a familiar one in most businesses today. But, how businesses manage change (and how successful they are at it) varies enormously depending on the nature of the business, the change and the people involved. And a key part of this depends on how far people within it understand the change process. If you work in a team that is subject to change, then you need a Change Process. By implementing a Change Process, you can track change as it occurs and control the effect it has on your team. A Change Process helps you monitor the impact of change on the business, to ensure that each change has the desired outcome. A Change Process, or Change Management Process, is a set of procedures that help teams to control change effectively. It’s not that you have to prevent change from happening; it’s how you manage change once it occurs that really matters. This is where a Change Process is invaluable. The Change Process allows you to record change requests, and review and approve those requests, before implementing them. This Change Process makes change management easy (Manage, 2007).

2.2 Change Management Concept

The change management process is the sequence of steps or activities that a change management team or project leader would follow to apply change management to a

project or change. Based on Prosci's research of the most effective and commonly applied change, most change management processes contain the following three phases, phase one is preparing for change which entails preparation, assessment and strategy development. Phases two is managing change which includes detailed planning and change management implementation and lastly phase three which is reinforcing change and includes data gathering, corrective action and recognition (Chapman, 2006).

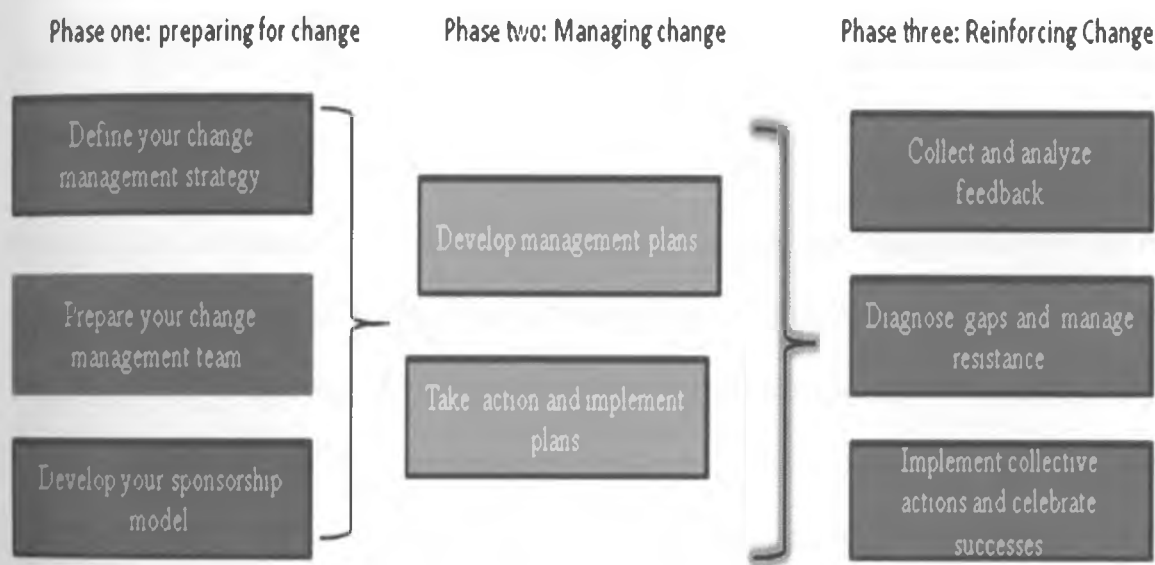


Figure 2-1: Change Management Process (Chapman, 2006).

2.3 Theories of Change Management

Several theories have been advanced by scholars, researchers and writers in change management. Key among them but not limited include Mckinsey theory, Kottter Eight step and Kart Lewins.

2.3.1 McKinsey Theory.

The McKinsey 7-S Model was created by Tom Peters and Robert Waterman while they were working for McKinsey & Company and by Richard Pascale and Anthony Athos at a meeting in 1978. The McKinsey 7-S model is a holistic approach to company organization, which collectively determines how the company will operate. There are seven different factors that are a part of the model: shared values, strategy, structure, systems, style, staff, and skills, which all work collectively to form the model (Manage, 2007).

Shared values are the center of the model because it is what the organization believes in and stands for, such as the mission of the company. Strategy represents what the company plans to do react to any changes of its external surroundings (Recklies, 2007).

The structure refers to the organizational structure of the company. Systems are the portion of the model that represents "the procedures, processes and routines that characterize how the work should be done". Staff is quite obvious in the fact that it is a proper representation of who is employed by the organization and what they do within the organization. Style signifies the organizational culture and management styles that are utilized within the organization. Skills indicate the abilities and competencies of either the employees or the organization holistically (Manage, 2007).

There are many benefits and disadvantages of the McKinsey Model. There are four main benefits of the McKinsey 7-S Model: It is an effective way to diagnose and understand the organization; it is a guide for organizational change; it is a combination of both rational and emotional constituents; and all parts are interrelated, so all portions must be

addressed and focused on. One major disadvantage is that when one of the parts is changed, all parts change because they are all interrelated. Another major disadvantage is that this model ignores differences. After five years many of the companies that used this model fell from the top (Oliver, 2001).

2.3.2 Kottter Eight Step Model

According to Chapman there are eight steps in this model. Step One: Increase urgency for change. Step Two: Build a team for the change. Step Three: Construct the vision. Step Four: Communicate. Step Five: Empower. Step Six: Create short term goals. Step Seven: Be persistent. Step Eight: Make the change permanent. The first step is to create urgency for change. This means that we have to convince the employees that this change is necessary for the company to survive. This also means that we must communicate that the change is achievable without any detrimental effects on their jobs. The next step is to build a team for the change, which has to be of some respected employees within the company. The third step is to construct the vision, which will show clear direction to how the change waster the future of the company and their jobs. The fourth step is to communicate this vision. In order for the vision to work it must be fully understand by the employees, which means that it is necessary for the leaders of the change group to follow this vision. The fifth step it to empower the employees to execute the change. It is still important that the management follow the same guidelines as the employees are too. By creating short term goals, we assist the employees to accept the change by showing them progress. Rewards are very important at this step also. The seventh step is about persistence because we should influence more change even after the short term goals are

met or the original plan for change will cease and die. The final step is to make the change permanent by moving fitting it into the company's culture and practices, such as promotion (Chapman, 2006).

As with the two aforementioned change models, Kotter's Eight Step Change Model has many disadvantages and benefits. One advantage is that this is a step by step model, which is easy to follow. Another is that it does not focus on the change itself, but rather the acceptance and preparedness for this change, which makes it an easier transition. One disadvantage is that you cannot skip any steps or the change process will completely fail. As with the other two models, change still takes time with this one too.

In my opinion the best choice for CF&F Tech Division is Kotter's Eight Step Change Model. I think that this is the best choice because it is a simple model. I also feel this way because it fully prepares the employees of the company before the vision is even created, which means that the actual transition was much easier in the long run. There are fewer disadvantages to this model than others. Overall it is the best fit for most companies because substantial change is needed for the divisions because it's history. This will also help ease the transition because the division has quite a history compared to the rest of the company, so people are not as set in the ways, as they would be if the division had been around longer (Chapman, 2006).

2.3.3 Kurt Lewin Change Management Model

Lewin's Change Management Model was created in the 1950s by a psychologist named Kurt Lewin. Lewin recognized three stages of change, which are still widely used today: unfreeze, transition, and refreeze. The majority of people tends to stay within certain safe

zones and is hesitant of change. These people tend to become comfortable in this unchanging environment and become uncomfortable when any change occurs, even if it is a minor one. In order to overcome this frozen state, we must initiate an unfreeze period, which is done through motivation. Motivation is important in any organization, even when it is not changing. The transition period is when the change is occurring, which is a voyage and not a step. The transition period takes time because people do not like change. This is when leadership is critical for the change process to work. Another important part of this stage is the reassurance that this is good for the company as well as the employees. At the end of the transitional voyage, comes the next stage: refreeze. This is the stage where the company once again becomes stable. (Mind, 2007; Syque, 2007)

As with the previous model there are many disadvantages and benefits of Lewin's Change Management Model. Benefits include: that this is a simple and easily understood model for change; the model is done through steps; this is an efficient model that is used today. The main disadvantage of this model is that it is timely, but you must consider that it is timely for any change to take place. Another disadvantage is that at the refreezing period, many people are worried that another change is coming, so they are in change shock. This change shock causes employees to not be as efficient or effective in their jobs (Mind, 2007; Syque, 2007).

2.3.4 Force Field Model

The force field model is built on the idea that forces are both driving and restraining change. These forces include: personal, project, organizational, network, to visualize the forces that may work in favor and against change initiatives. The diagram helps its user to

picture the “war” between forces around a given issue. Usually a planned change issue is described at the top. Below this, there are two columns. The driving forces are listed in the left column, and the restraining, forces in the right hand column. Arrows are drawn towards the middle. Longer arrows indicate stronger forces. The idea is to understand, and to make explicit, all the forces acting on a given issue (Syque, 2007).

Force Field Model

Change Issue

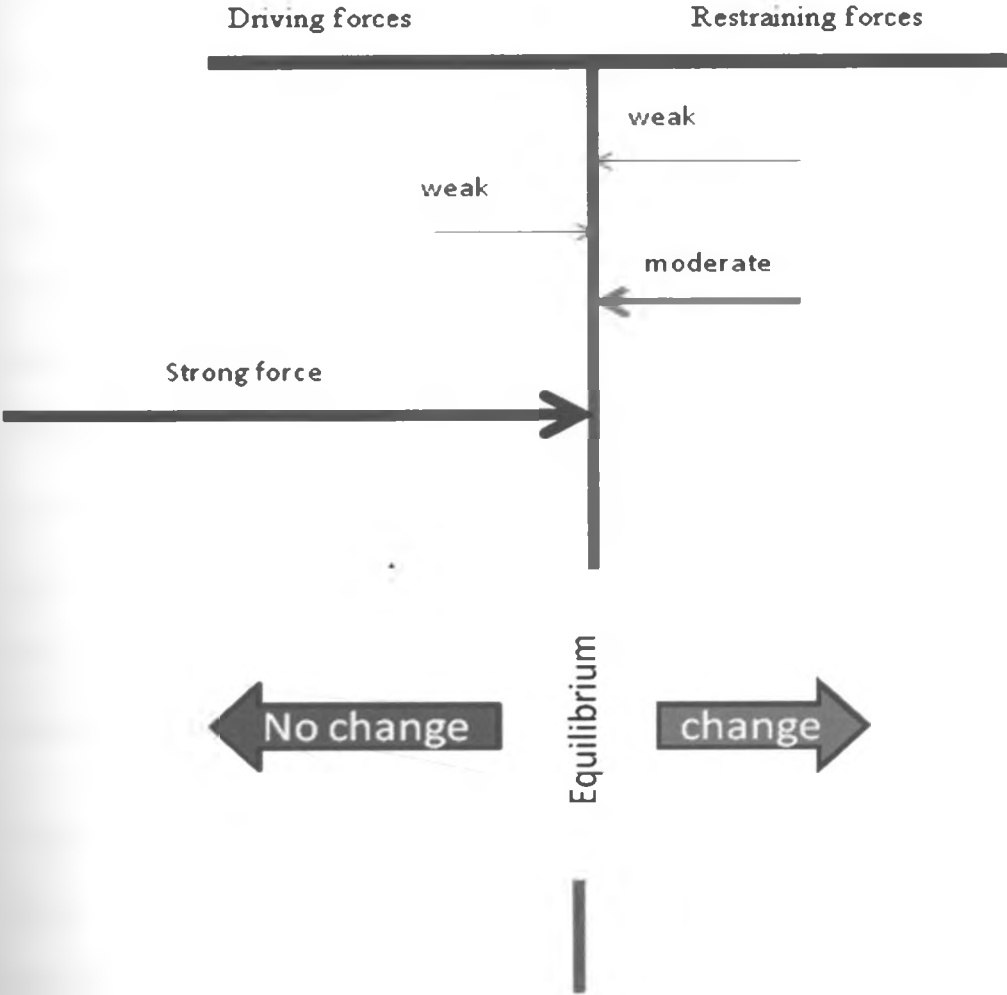


Figure 2-2: Force Field (Syque, 2007).

2.4 Concept of IFMIS

IFMIS or an Integrated Financial Management Information System refers to the use of information technology in financial operations to assist in managerial and budgetary decision making, carrying out financial duties & responsibilities, and in the preparation of financial reports and statements. In simpler terms, it is an information system that records financial transactions and summarizes financial information. In the sphere of Government operations, IFMIS refers more specifically to the computerization of public financial management (PFM) processes, from budget preparation and execution to accounting and reporting, with the help of an integrated system for the purpose of financial management. The scope and functionality of an IFMIS can vary, from basic General Ledger accounting application to a comprehensive system covering budgeting, accounts receivable/payable, cash management, commitment control, debt, assets and liability management, procurement and purchasing, revenue management, human resources management and payroll. Integration is most critical in any IFMIS. This implies that the system should have a standardized system of data classification for recording financial transactions; internal controls for data entry, processing and reporting and common processes for similar operations to avoid duplication. (Edwin and Brown, 2008).

In the government realm, IFMIS systems must be designed to support distinctly public sector functions. They must be able to handle and communicate all the financial movements for the complex structure of budget organizations. Moreover, they must be designed to ensure compliance with budget laws and public finance rules and restrictions. An IFMIS can improve governance by providing real-time financial information that

financial and other administrators can use to formulate budgets, manage resources, and administer programs. Sound IFMIS systems can not only help governments gain effective control over public finances, but also enhance transparency and accountability, reducing political discretion and serving as a deterrent to corruption and fraud (Edwin and Brown, 2008).

2.5 Change Management and IFMIS

Emerging Information and Communication Technology (ICT) can play an important role in fighting corruption in public finance systems by promoting greater comprehensiveness and transparency of information across government institutions. As a result, the introduction of Integrated Financial Management Systems (IFMIS) has been promoted as a core component – and in many cases a driver- of public financial reforms in many developing countries. Yet, experience shows that in spite of the considerable amount of resources allocated to such schemes, IFMIS projects tend to stall in developing countries, as they face major challenges of institutional, political, technical and operational nature. Case studies of more successful countries such as Tanzania, Ethiopia and Uganda indicate that factors supporting successful implementation of IFMIS include a clear commitment of the relevant authorities to financial reform objectives, ICT-readiness, a sound project design, a phased approach to implementation, a project management capability, as well as adequate resources and human resource capacity allocated to the project (Edwin and Brown, 2008).

2.5.1 IFMIS in Tanzania

According to 2005 IMF working paper, the IFMIS in Tanzania appears to be the most successfully implemented system in an Anglophone African country. Within the framework of an ambitious public finance management reform initiated in 1994, Tanzania decided to introduce IFMIS in ten ministries, departments and agencies in 1998. The IT solution selected was a medium-sized management and accounting package, significantly less complex than the ones used in other countries like Ghana. The roll-out plan was based on an incremental approach and focused initially on the Accountant General's Department and 10 pilot ministries. After a consolidation phase, the system was rolled out to all 43 ministries and departments in the capital, then progressively to the entire central government and progressively introduced at the local level. The implementation was distinguished by an initial review of the public expenditure management processes affecting budget execution and the introduction of an improved expenditure control framework and chart of accounts, embedding the reform process in the Ministry of Finance with an emphasis on capacity building, revising and developing an enabling legislation, accounting principles, systems and necessary organizational arrangements, selecting a midrange commercial software package supported by a high quality local consultancy company; availability of adequate donor resources and a solid political backing which trickled down to the management level. Both the authorities and the international community perceive the IFMIS as a critical tool for achieving public sector accountability (IMF, 2005).

2.5.2 IFMIS in Ethiopia

A 2006 paper by the Kennedy School of Government presents a case study of Ethiopia as an illustration of a successful and to some extent unconventional approach to automating public financial systems. This case study is especially interesting as it challenges the traditional wisdom usually associated with such schemes. In Ethiopia, the automation process faced major challenges of resource, capacity, infrastructure, changes in government and dependency on foreign aid policies. Therefore, the reform strategy prioritized a pragmatic sequential approach based on the logic to ensure that the “basics” are in place before moving to more complex systems. A strategic choice was made to drive the automation process from the procedural requirements which were defined by the users, through an incremental and iterative approach, with government staff extensively being involved. The reform process first focused on bringing existing system up to date through simplification, elimination of backlogs and sequential procedural change before introducing new systems. Constant consideration was given to limit the burden imposed on scarce staff throughout the whole process. This strategy was justified by low level of skills, evolving fiscal decentralization and the general degradation of the financial system that had taken place over the previous years. The information systems were developed in a phased approach based on user demand and resource availability. This approach necessitated an iterative customized approach to automation instead of a more comprehensive and standardized “off-the-shelf” approach that would have exceeded the local capacity to absorb it. This prudent and pragmatic approach to automation ensured that information systems were successfully and promptly delivered at

relatively low cost, then gradually upgraded to evolve into technically robust and sophisticated systems meeting international standards.

The Ethiopian case demonstrates the role of automation as a support but not a driver of public financial reform. Ethiopia prioritized a process change approach driven by procedural reform and supported by information technology instead of viewing IT requirements as a driver of procedural reforms. The fact that OTS solutions are not necessarily always the most appropriate and cost effective solution to automation and the value of an incremental strategy of frequent operational upgrade of information systems. This case also demonstrates that the lack of high level political will does not necessarily hamper successful implementation (SIDA, 2006).

2.5.2 IFMIS in Uganda

Uganda chose to implement a comprehensive financial management reform programme to improve budget and expenditure processes both at the central and decentralized levels. The design and development phase of the IFMIS got considerably delayed and only in 2003 was a company awarded the contract for the provision of a turnkey solution including hardware, software, a Wide Area Network (WAN) and supporting training/change management. This constituted the second attempt to set up a government-wide IFMIS with World Bank financing. The project encountered key design problems and the pilot – run in six line ministries and four local governments – brought out a number of issues in the system’s functionality as well as treasury procedures. The main design problem was associated with the chart of accounts that the government has approved, and the costs involved to rebuild the system were considerable. The system

was put into operation with the defects unaltered. As a result, the Uganda IFMIS is performing under its potential with piecemeal, ad-hoc solutions that decrease the efficiency of the system. Further problems encountered are common to the Implementation of most IFMIS projects, including Inadequate planning poor communication between implementers, donors and government; shortage of management capacity and resources changes in system design without full agreement of all poorly implemented trainings. These examples illustrate the numerous challenges involved in implementing IFMIS. Lack of high level commitment, ineffective project coordination, loose project design and planning, institutional resistance to change, inadequate technology and lack of human resource capacity are some of the factors often cited for the failure of such schemes (SIDA, 2006).

2.5.3 IFMIS in Kenya

According to the Swedish Country Strategy for Kenya, democracy and human rights is a priority for the social and economic development of a country. One important objective of support to Kenya is thus the strengthening of democratic, transparent and accountable governmental institutions. IFMIS strives to achieve this objective by strengthening Kenya's public financial management. Kenya has been in a steady social and economic decline for the past decade. A number of internal and external factors have been attributed to this decline. However, neighboring countries operating within almost identical environment have achieved high and relatively stable growth in the same period. Poor governance in the public sector including weak internal controls that enable corruption to thrive has been identified as the single most important cause of economic

stagnation and resultant poverty. The Kenyan Auditor-General and other independent observers have reported numerous cases of mismanagement and corruption. Resources intended for poverty reduction activities, such as services provision and infrastructure development, have been diverted to other uses. A combination of factors—including poor systems, mismanagement, corruption and economic stagnation—have therefore reinforced each other and resulted in slow economic growth, reduced investment flows, poor donor support and increased poverty (SIDA, 2006).

2.5.3.1 Public Financial Management

Historically, financial management in Kenya has been poor and systems have been stand-alone and fragmented. The fragmented systems have been weak in information delivery and compliance has been low. As a result, pending bills (Government current liabilities) have escalated to unmanageable levels and overspending has been significant. Procurement processes have been inefficient and in many instances the probity of contracts awarded has been severely criticized. The financial system has therefore been a major obstacle in effective planning, budgeting and implementation of government programmes. The flow of donor funds, including Swedish development assistance, has also been severely affected by the weak financial system. Costing of activities and programmes has not been possible under existing systems and therefore the linkage between inputs and outputs in plans and Budgets is difficult to establish. In general, compliance, transparency, accountability and good governance are hindered by the lack of effective systems, procedures and processes. The implementation of IFMIS will help to overcome the widespread corruption, which has also been a serious obstacle to social

and economic development in Kenya and has led to most development partners choosing alternative channels for aid disbursements and significantly reducing their support to the country (SIDA, 2006).

2.5.3.2 Benefits of IFMIS

When fully implemented, IFMIS will offer efficient and streamlined processes, whilst strengthening controls. Procurement under IFMIS was fully transparent and all transactions and approvals were embedded within the system. Streamlining the procurement process will remove bottlenecks in the implementation of government programme and donor funded projects. Value for money in procurement was facilitated, providing significant tangible, financial return on the investment in IFMIS. IFMIS will enable effective cash management, and expenditure controls, at the pre-commitment stage. This in turn will facilitate improved management of liabilities. Improved revenue analysis features will provide revenue trends and targets by collection source, which will increase revenue collections. Providing authorized users with online access to financial information and transaction details will assist financial decision making and enable timely and continuous audit, rather than the current practice of all auditing being undertaken after the completion of the final month's accounts. This will speed up the auditing and publishing of GOK's Annual Financial Statements. Reporting capabilities was strengthened in terms of timeliness and flexibility of analysis. It was possible to make on-line queries, publish formal reports and provide information to users in spreadsheet format for off-line modeling and analysis. Easy to read web pages will provide information customized to individual manager's needs. Statements of

Expenditure and reimbursement claims were automated, speeding up the mobilization of donor funds and donor funded projects. IFMIS will accommodate the budgeting processes of Governments and Government Departments. It will provide enhanced modeling features, to model various proposed budget scenarios, with a view to optimizing resource prioritization and allocation. Providing the mechanism for costing activities and outputs/objectives will enable the dissemination of budgets based on sectoral priorities and objectives. Providing focus on core programmes including poverty reduction interventions are key objectives of IFMIS. High levels of automation will streamline processes and facilitate greater levels of compliance. Visibility of all transactions will promote transparency, accountability and good governance (SIDA, 2006).

2.5.4. Challenges Affecting IFMIS Implementation in the Industry

Implementing and maintaining IFMIS is a complex task that involves the Ministry of Finance and all line ministries. There are many risks involved that go far beyond mere technological risks of failure and deficient functionality. A 2005 IMF working paper on introducing Financial Management Information Systems more specifically highlights a number of challenges that explain why IFMIS projects tend to stall in developing countries (IMF, 2005).

2.5.4.1 Institutional Challenges

The introduction of IFMIS involves more than the “simple” automation of public finance tasks and processes. IFMIS imply both efficiency reforms and reforms that change

existing procedures. They should therefore be seen as an organizational reform which deeply affects work processes and institutional arrangements governing the management of public finance. Failure to undertake parallel reforms required by IFMIS is one of the reasons that often impede successful implementation. A USAID practical guide on IFMIS implementation published in 2008 identifies a series of issues that commonly accompany IFMIS reforms (USAID, 2008). IFMIS must be underpinned by a coherent legal framework governing the overall public finance system. IFMIS generally imply fundamental changes in operating procedures and should be preceded by a detailed functional analysis of processes, procedures, user profiles and requirements that the system will support. Implementing IFMIS requires that many government structures start working with common tools. For the information to be coherent, all administrative units at national, regional and local level need to adopt a common language in the form of unified budget classifications and charts of account. This can be a very lengthy and cumbersome process, which for example took more than five years in Vietnam. IFMIS reform is often accompanied by the consolidation of all government financial resources in a single treasury account or a set (USAID, 2008).

2.5.4.2 Political Challenges

IT reforms are perceived as complex, risky, resource intensive and requiring major procedural changes, often involving high-level officials lacking incentives for reform. Decision makers must be sold the idea that benefits exceed risks, while the incentive structure that may undermine political will for reform has to be adequately assessed from the early stage of the project. Similarly, at the agency level, it is of crucial importance for

successful implementation that agencies recognize the need for a new system. Change management is therefore a critical and often neglected aspect of IFMIS reform for overcoming resistance to change from those, who benefited from the “old” way of doing business, all the way to end users, whose work might be profoundly altered by the new system. It is important to “sell” the reform through communication, education and training, using various channels such as the media, workshops, seminars and conferences. Many IFMIS projects have also failed due to the lack of clarity in ownership of the system and unclear authority to implement. Due to the institutional segmentation of public expenditure management, it is not always immediately clear who, from the Ministry of Finance or Accountant General Department, should be in charge of an IFMIS project? Joint ownership may result in a loss of accountability and real ownership of the project (USAID, 2008).

2.5.4.3 Technical Challenges

Many IFMIS projects have also failed because the basic system functionality had not been clearly specified from the onset of the intervention. IFMIS must be carefully designed to meet agency’s needs and functional requirements, including the accounting and financial management tasks the system should perform. In some cases, interfaces with existing IT systems have to be created to fit the country’s specific circumstances. As documents on the functional requirements – which will often serve as a blueprint for later phases of the system – are difficult to rectify at a later stage, it is of crucial importance to spend enough time on the design phase of the project. As IFMIS core systems need to be adapted to the local context and environment, a key issue to consider is whether to use

Off-The-Shelf (OTS) systems and customize them to fit the local conditions or whether to invest in an own “custom-build” system, with major costs and resource implications. IFMIS implementation also involves major hardware requirements. In Malawi for example, IFMIS requires 50 servers, one central server and a local IFMIS sever in each line ministry. Power shortage and interruptions mean that in some countries, generators and power supply units are needed as well (Oliver, 2001).

2.5.4.4 Human Resources Requirement and Capacity

IFMIS implementation involves considerable human resources requirements and capacity building needs throughout the entire government. The low level of computer literacy in developing countries must first be adequately addressed before such projects can be truly viable. The lack of staff with required IT-knowledge cannot be easily remedied by training and hiring. The current salary structure and terms of employment in the public sector are usually not attractive enough to compete with private sector employment conditions and to incentivize candidates with required IT-skills. There is also a risk that trained staff leaves for better job opportunities (Oliver, 2001).

2.5.5 Problems in Managing Change

Effective change management that makes all employees participate is essential in our world of turbulence and of shorter cycles of innovation. Changes may affect every industry and every organizational function. In every organization, management knows about the external environment and the vision of the organization. This knowledge is the basis for developing appropriate strategies. Although challenging, this is the easier part.

Nevertheless, management will only be able to successfully implement a new strategic direction, if they manage to gain the commitment of everyone within the organization. The point is to develop processes that enable all employees to learn about change and that to develop a culture of dialogue between management and workforce. Change management means to make change happen – to flexibly adapt the organization to ongoing external changes (Oliver, 2001).

2.5.6 Barriers in Managing Change

There are many models for systematically managing change processes. So why are there Problems in successfully implementing change? It is a well-known insight that top management support is one of the critical success factors for any change effort. If top management does not buy in – why should anybody else? Nevertheless, there are some more barriers that could hinder successful change. They include Barriers of Perception, Emotional Barriers and Cultural Barriers (Oliver, 2001).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the various methodologies that were used in gathering information, procedures that were adopted in conducting the research, the techniques, analysis and the presentation of data collected. This chapter therefore focused on the research design and data collection and analysis that were applied during the study.

3.2 Research Design

A descriptive case study design was adopted for this study because it will enable an in-depth understanding of the phenomena. Consequently, the study focuses on a specific ministry which is Ministry of Finance as opposed to the study of the entire government ministries. This design was preferred because of proximity of the case and faster access to information. More importantly, it permits an in-depth scrutiny of the phenomena at hand.

3.3 Data Collection

The researcher collected data from key persons in respective departments who had in-depth understanding of the Automated System (IFMIS). These departments included the accountant general, procurement and government information technology services (GITS). From the accountant general's department (AGD) the researcher interviewed six key persons who included the project manager, two senior officers referred to as super users in the system hierarchy and three users who were officers at the operational level.

In the procurement department the researcher interviewed the principal procurement officer and two procurement officers. Lastly, from the GITS department the researcher interviewed the director of GITS and two IT officers. The total number of key persons interviewed amounted to twelve as shown in the table attached as appendix III.

3.4 Data Collection Instruments and Methods.

The researcher used the interview guide as the preferred data collection instrument. The purpose of the research interview was to gather information on the change of the accounting system. The interview guide enabled the researcher to conduct interviews in person or over telephone. The interview subject was asked same initial questions. Depending on the cooperation and depth of responses the researcher used probing questions to gather more comprehensive information. The questions were designed to elicit meaningful answers. The subjects were asked for general responses as well as examples. Probing questions allowed for more depth and specificity. The researcher also incorporated indirect questions that allowed respondents to answer more openly.

3.5 Data Collection Procedures

First and foremost, primary data was collected by the use of an interview guide and was the main data to be used in the research. Secondary data involved collection of already processed information. This was mainly used as a source of literature review and was sourced from libraries, internet and journals.

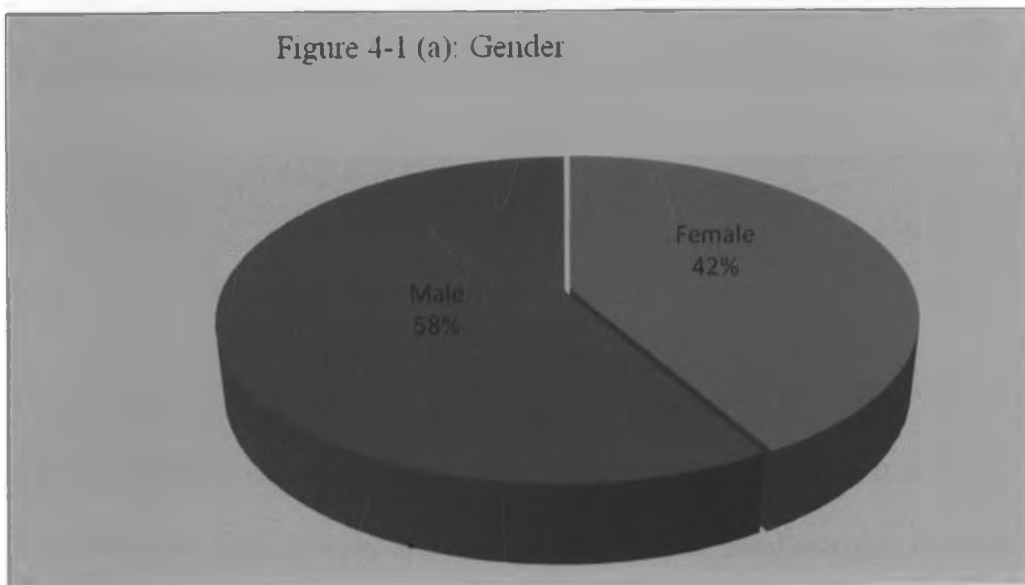
3.6 Data Analysis and Presentation Methods

The data collected was analyzed by use of inferential statistics. In particular, frequency tables, averages and percentages were used. The data analysis therefore involved simple tabulation and presentation of reports. The data was then presented using tables, graphs and charts.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

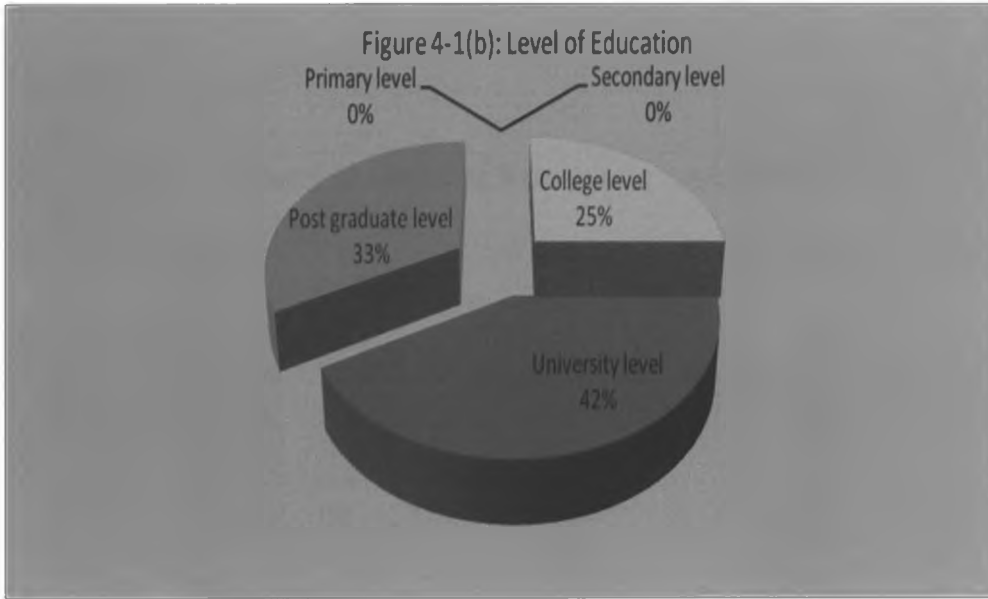
4.1 Demographic Data

A response rate of 100% was obtained in this study. No interview guide was regarded as invalid. Findings in this study indicated that the majority of respondents 7 (58.3%) were male while female respondents were 5 (42.7%) as shown in figure 4-1(a). This means that there was no gender disparity when choosing the respondents.



Source: Researcher (Analyzed Data)

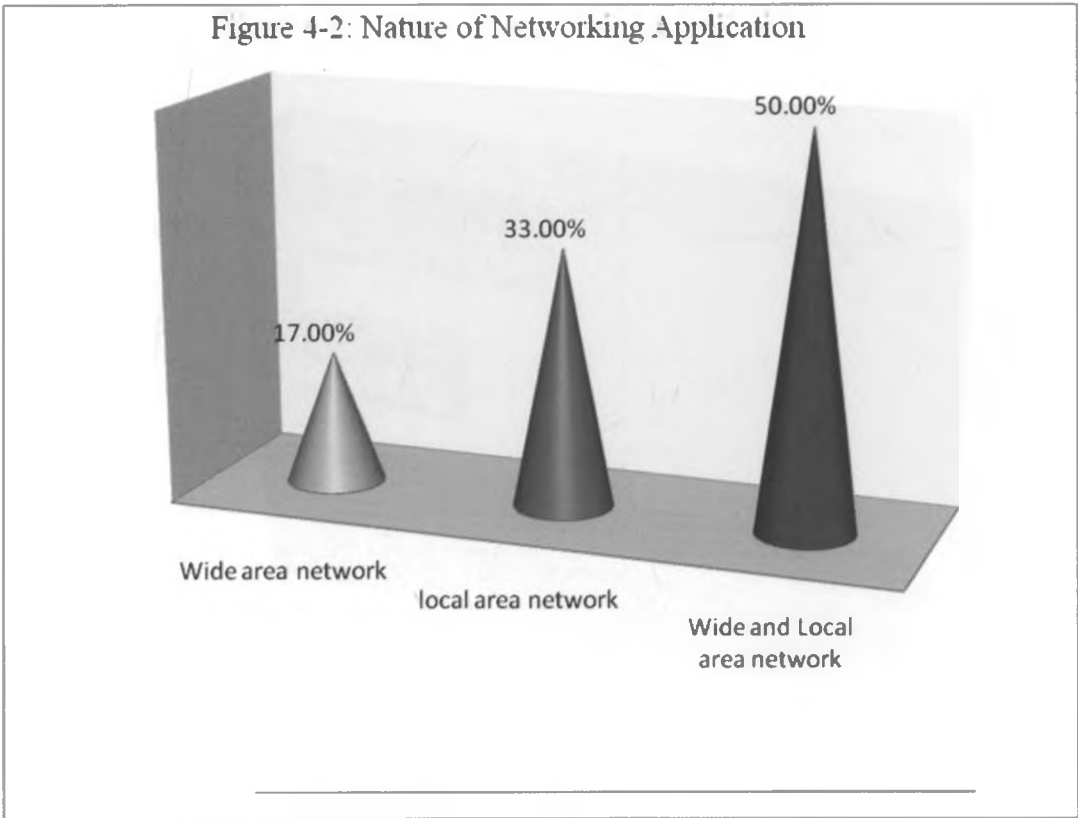
Findings in this study indicated that a majority of the respondents 5 (42%) had university level of education. In addition, 4 (33%) of the respondents had post graduate level of education while 3 (25%) had college level of education. No other response was obtained for these variables as shown in figure 4-1(b). This implies that all the respondents were informed and knowledgeable in their areas of specialisation. They could therefore competently respond to questions regarding the adoption of automated financial systems as key persons.



Source: Researcher (Analyzed Data)

4.2 Nature of Networking Applications

The majority of respondents 6 (50%) indicated that both local and wide area network applications were used in most departments. Computers in and across departments were linked via local area network and also through a broad band internet. In addition 4 (33%) of respondents indicated that their departments were networked through a local area network only while 2 (10%) indicated that their departments were networked through wide area network such as internet as shown in figure 4-2. This was stand alone personal computers and laptops which were not networked with the rest of the departments. This implies that the networking was adequate since both local and wide area network were in place.

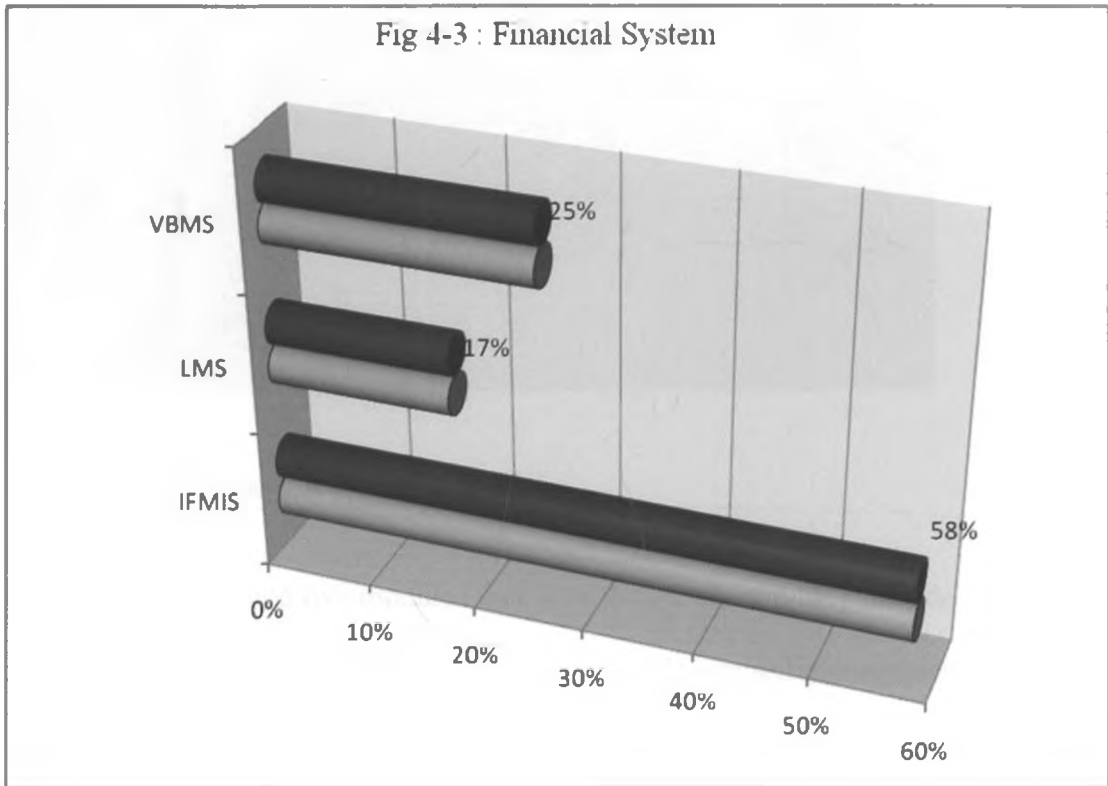


Source: Researcher (Analyzed Data)

4.3 Preferred Financial Systems

According to the data collected, majority of the respondents 7 (58%) indicated that Integrated Financial Management Information Systems (IFMIS) was the most preferred financial system. In addition 2 (17%) of respondents indicated that they preferred Ledger Management System (LMS) while 3(25%) of respondents indicated that they preferred Vote Book Management System (VBMS) as shown in figure 4-3. This shows that most of the respondents preferred Integrated Financial Management Information Systems

(IFMIS) despite the challenges in its adoption. There is a high level of confidence with the IFMIS system.

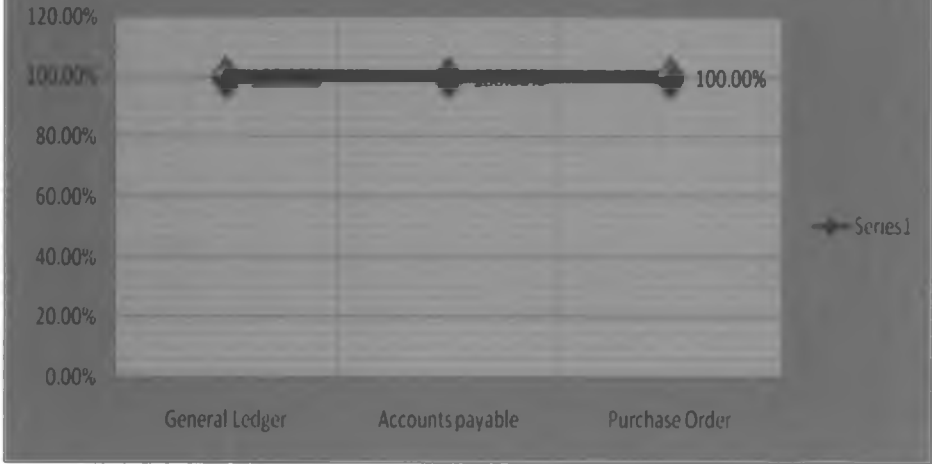


Source: Researcher (Analyzed Data)

4.4 IFMIS Modules in Use

The interviewee indicated that there were three IFMIS modules that were in use and are namely general ledger, account payable and purchase order. All of the respondents 12 (100%) listed all the three IFMIS modules as shown in figure 4-4. This shows that the modules in use had been implanted in all the departments successfully despite the challenges faced.

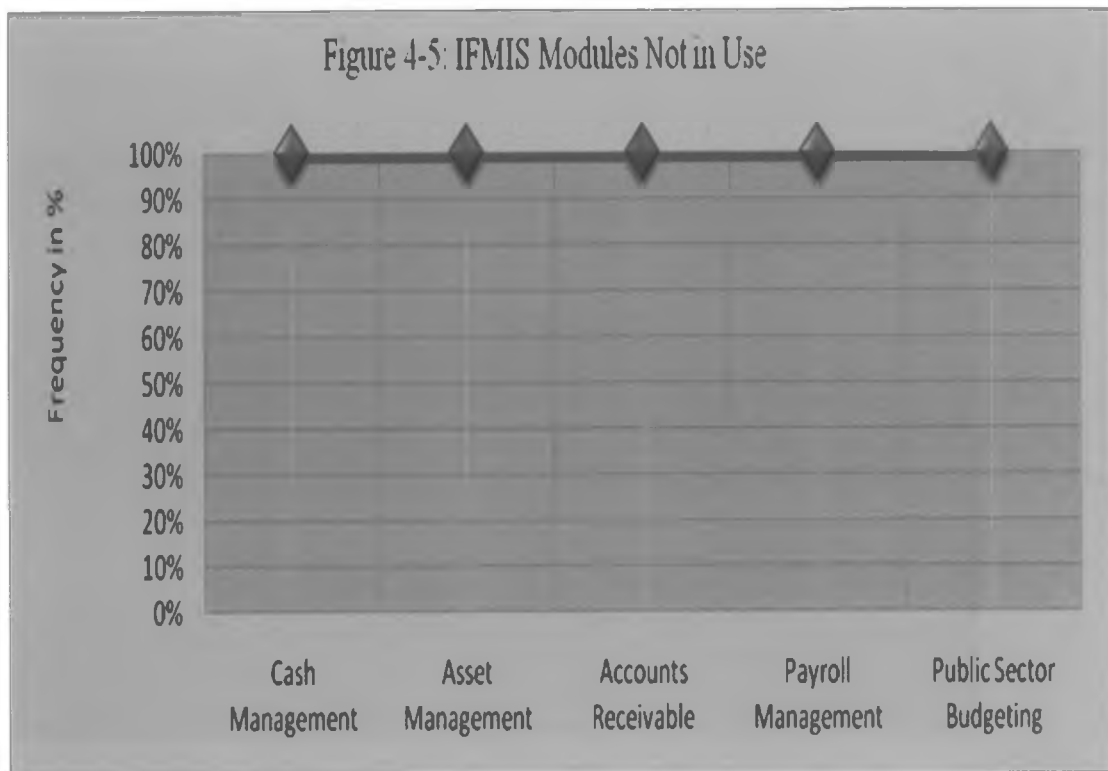
Figure 4-4 IFMIS Modules in Use



4.5 IFMIS Modules not in Use

The respondents listed five modules that were not on use and they include cash management, asset management, accounts receivable, payroll management and public sector budgeting. All of the respondents 12 (100%) listed all the five IFMIS modules as shown in figure 4-5.

Figure 4-5: IFMIS Modules Not in Use



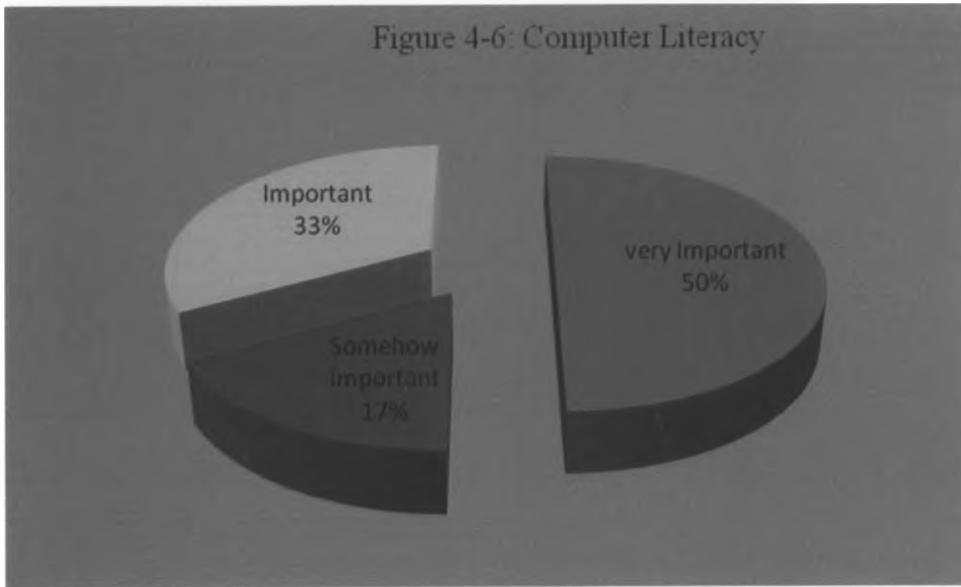
Source: Researcher (Analyzed Data)

The implication of the findings in figure 4-5 is that all the relevant modules are not in place due to the inherent challenges in their implementation. The implantation is therefore gradual.

4.6 Computer Literacy

According to the data collected, majority of the respondents 6 (50%) indicated that computer literacy was very important in implementing IFMIS. In addition 4(33%) felt that it was just important while 2(17%) of respondents indicated it was somehow important as shown in figure 4-6. The findings here indicate the need for computer literacy meaning people need to be well trained to cope with the challenges of the new system.

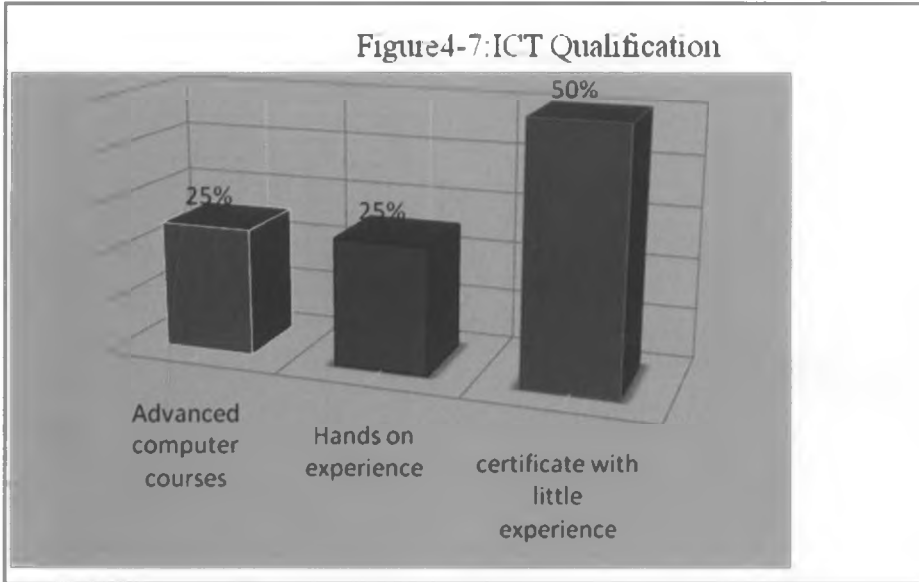
Figure 4-6: Computer Literacy



Source: Researcher (Analyzed Data)

4.7 ICT Qualification

According to the data collected 3(25%) respondents had advanced computer courses such as database management systems. In addition had 3(25%) had hands on experience in Microsoft packages such as excel and word while majority 6 (50%) had advanced Certificate in Microsoft packages but with little working experience as shown below in figure 4-7. This shows a high level of computer literacy of the respondents. It therefore implies that the respondents were competent enough to understand the challenges facing the implementation of IFMIS and underscored the need for experience and training.

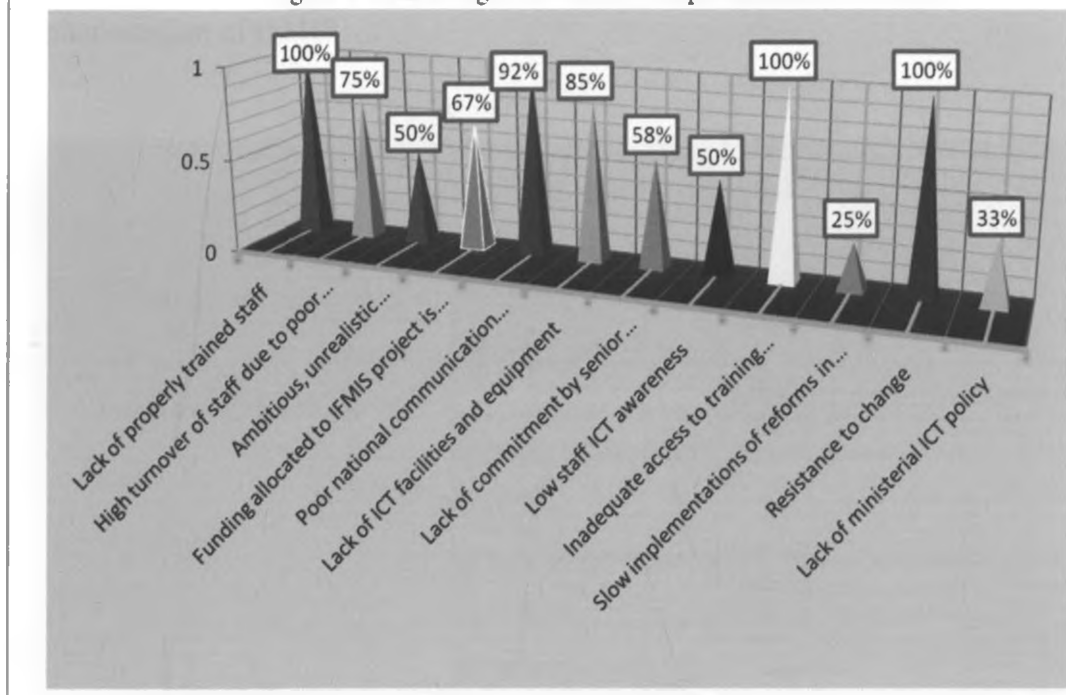


Source: Researcher (Analyzed Data)

4.8 Challenges Faced in the Implementation of IFMIS

From the study, it indicated that there were numerous challenges found in the implementation of IFMIS. 12 (100%) listed lack of properly trained staff and resistance to change as major challenges. 11 (92%) indicated poor national communication network while 10 (85%) indicated lack of facilities. In addition 9 (75%) indicated high turnover of staff due to poor remuneration. 8 (67%) indicated that funding allocated to IFMIS project is negligible and 7 (58%) indicated that lack of commitment by senior government staff. 6 (50%) indicated that ambitious, unrealistic implementation time frames and low staff ICT awareness. Also 4 (33%) indicated that there was lack of ministerial ICT policy while 2 (25%) indicated that there was slow implementation of reforms in Kenyan ICT law and regulatory regime. This implied that there were numerous challenges and the respondents understood them. They could also rank them from the greatest to the least as shown in figure 4-8 below.

Figure 4-8: Challenges Faced in the Implementation of IFMIS

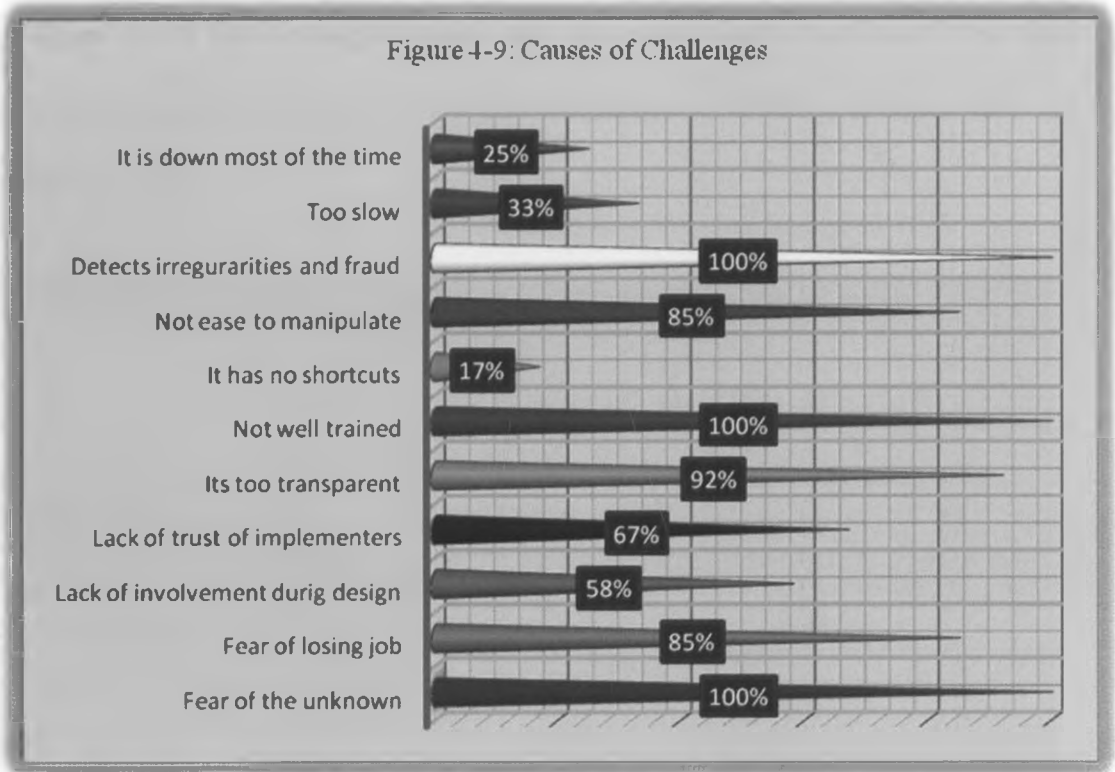


Source: Researcher (Analyzed Data)

4.9 Possible Causes of Challenges

Findings in this study indicated that there were numerous possible causes of the challenges in the implementation of IFMIS. 12 (100%) indicated that there was fear of unknown, there wasn't enough training and indicated that IFMIS detected irregularities and fraud. 11 (92%) indicated that IFMIS was too transparent and 10 (85%) indicated that employees indicated that they feared losing job and it is not easy to manipulate. In addition, 8 (67%) stated that employees lacked of trust of implementers while 7 (58%) indicated that employees were not involved during design. 4 (33%) indicated that IFMIS was too slow, 3 (25%) stated that it is usually down most of the time and 2(17%) indicated that it has no shortcuts as shown in figure 4-9. This shows the respondent

understood the root causes of the challenges and the need to address them for smooth implementation of IFMIS.

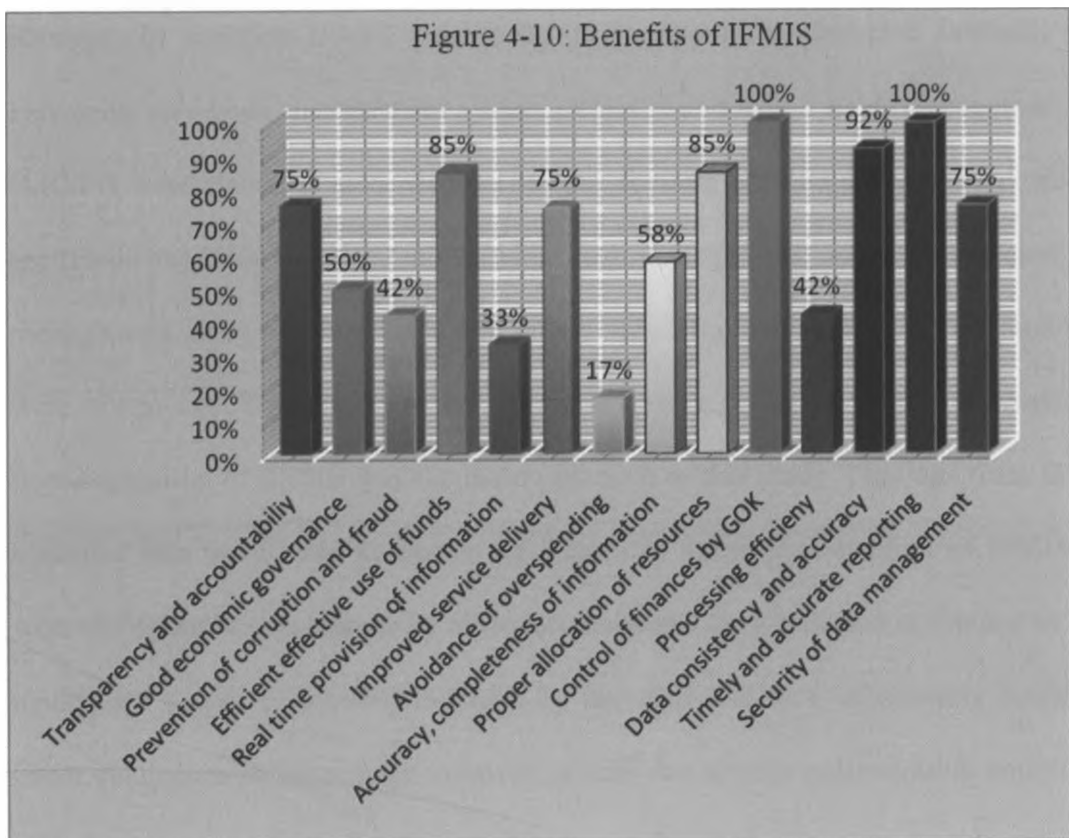


Source: Researcher (Analyzed Data)

4.10 Benefits of IFMIS

According to the study, a majority of respondent 12 (100%) stated that IFMIS had timely and accurate reporting, control of finances by GOK. 11 (92%) said that with the implementation of IFMIS there is data consistency, 10 (85%) said that there is proper allocation of resources and efficient and effective use of funds. 9 (75%) IFMIS will bring about transparency and accountability, security of data management and improved service delivery. In addition, 7 (58%) said that it had accuracy and completeness of

information, 6 (50%) IFMIS had good economic governance, 5 (42%) said it prevented corruption and fraud and it increased processing efficiency while 4 (33%) said it had real time provision of information and 2 (17%) said IFMIS prevented overspending as shown in figure 4-10. The findings implies that the respondents understand that there are numerous benefits resulting from the implementation of IFMIS and hence view the new system positively.



Source: Researcher (Analyzed Data)

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objective of the study was to determine the challenges facing the ministry of finance in managing change from legacy accounting systems to integrated financial management information systems (IFMIS). From this study, findings indicated that majority of ministry departments were both networked by a local area network and a wide area network. In addition IFMIS was found to be the most preferred financial system. However, vote book management system (VBMS) and ledger book management system (LBMS) were also indicated. General ledger, account payable and purchase order were the IFMIS modules that were in use while cash management, asset management, payroll management, accounts receivable and public sector budgeting were IFMIS modules that were not in use. The determination of challenges facing the ministry of finance in the implementation of IFMIS was the main objective of this study. Findings from this study indicated that there were numerous challenges in the implementation of IFMIS. There were three that were common to all respondents and they included resistance to change, inadequate access to training facilities by the staff and lack of properly trained staff. Other challenges included high turnover of staff due to poor remuneration ambitious and unrealistic implementation time frames, poor national communication network, funding allocated to IFMIS project is negligible, poor national communication network, lack of ICT facilities and equipment, lack of ministerial ICT policy, low staff ICT awareness, slow implementations of reforms in the Kenyan ICT law and regulatory regime and lack of commitment by senior government staff. Findings in this study indicated that there were numerous possible causes of the challenges in the implementation of IFMIS. These

were fear of unknown, there wasn't enough training and IFMIS detected irregularities and fraud. It was also said that IFMIS was too transparent, employees feared losing job and it is not easy to manipulate. In addition, employees lacked of trust of implementers and that they were not involved during design. IFMIS was too slow, it was down most of the time and it had no shortcuts.

Though there were several challenges, there were benefits nevertheless. It was found that IFMIS had timely, accurate reporting, control of finances by GOK, data consistency, proper allocation of resources and efficient and effective use of funds, transparency and accountability, security of data management and improved service delivery. In addition, it had accuracy and completeness of information, good economic governance, prevented corruption and fraud and it increased processing efficiency while it had real time provision of information and it prevented overspending.

5.2 Conclusion

With reference to the objectives and analysis conducted, it was possible to realize the aim of the project was reached. Challenges facing the ministry of finance in managing change from legacy accounting systems to integrated financial management information systems (IFMIS) were analyzed. Resistance to change was found as the major challenge thus all the causes of challenges were referenced to resistance. However, regardless of these challenges, IFMIS was found to be the most preferred type of financial system. The researcher identified potential benefits of adopting IFMIS such as timely, accurate reporting, control of finances by GOK, data consistency, proper allocation of resources, efficient and effective use of funds, transparency and accountability, security of data

management and improved service deliver as accuracy and completeness of information, good economic governance, prevented corruption and fraud and it increased processing efficiency, real time provision of information and it prevented overspending.

5.3 Recommendations

Several recommendations were made by both respondents and the researcher. Funds allocated to IFMIS project should be increased, ICT and training facilities and equipment should be increased and staffs should be trained properly. In addition, senior government officials should show commitment in the support of implementation of IFMIS and also promoting ICT awareness. Further work should be done on challenges faced in the implementation of IFMIS since no recent study has been done and also study should be done on areas that this project did not cover such as solutions to these challenges.

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DATE 02/10/2009

TO WHOM IT MAY CONCERN

The bearer of this letter Moses P. Gitari Muriuki

Registration No: 061171581/2007

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

DR. W.N. IRAKI
COORDINATOR, MBA PROGRAM

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

APPENDICES

APPENDIX I

Departments	Key Officers	Number
Accountant General	IFMIS Project Manager	1
	IFMIS Super Users	2
	IFMIS Users	3
Procurement	Principal Procurement Officers	1
	Procurement Officers	2
Government Information Technology Services (G.I.T.S)	Director	1
	I.T Officers	2
Total		12

Table 3.1 A numerical composition of the persons interviewed per department (Author, 2009).

APPENDIX II

Interview Guide

This interview guide aims to document the type of automated financial systems used by the ministry of finance, determine challenges facing their adoption and possible solutions.

- i. Date _____
- ii. Gender Male () Female ()
- iii. Department _____
- iv. Level of education
 - a) Primary level
 - b) Secondary level
 - c) College level
 - d) University level
 - e) Post graduate level
 - f)

1. What is the nature of networking applications that are used by the Ministry of finance?

2. Which financial system is most preferred?

3. State the IFMIS modules that have been implemented in the ministry of finance and are in use.

4. State the IFMIS modules that are not in use.

5. According to you, how important is computer literacy in implementing IFMIS?

6. What is your level of ICT qualification?

7. What are the challenges faced in the implementation of IFMIS in the ministry of finance? Please list them'

8. In your own opinion what could be the possible causes of these challenges?

9. In your opinion are there any benefits in adopting IFMIS from a ministry point of view? Please explain.
