MANAGING STRATEGIC CHANGE AT SUMAC MICROFINANCE BANK LIMITED

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DECLARATION

I confirm that this research project is my original work and has not been submitted for examination to any other University.

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D/61/72165/2011

This research project is submitted for examination with my approval as the University Supervisor.

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DEDICATION

To my relatives, friends and former college mates.

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I would like to sincerely thank the members of staff of the University of Nairobi who contributed in one way or another to the knowledge that I have gained from this academic institution. In a special way, I appreciate the contributions that my supervisor made to enable me complete this project.

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ABBREVIATIONS AND ACRONYMS

AMFI	**:**	Association of Microfinance Institutions
CBK	**:**	Central Bank of Kenya
DTM	:	Deposit Taking Microfinance.
SMFB	**:**	Sumac Microfinance Bank Limited
MFIs	**:**	Microfinance Institutions in Kenya
KRA	**:**	Kenya Revenue Authority
MD	**:**	Managing Director
OM	**:**	Operations Manager
ATMs	**:**	Automated Teller Machines
BDM	**:**	Business Development Manager

ABSTRACT

The strategic change management practices differ from one organization to the other due to differences in context and the people involved and affected by the change. Change is driven by business trends, environmental, Social, cultural, economic and political factors. The way the leadership of an organization communicates, involves and motivates all the stakeholders especially the employees in the change agenda contributes to the successful implementation of the strategic change. The researcher employed a case study approach in order to obtain as much information as possible. The objective of this study was to determine the strategic change practices at SMFB. Interview guides were administered to five senior managers who were directly involved in the formulation and implementation of the change strategies. Data was analyzed using content analysis. The study revealed that SMFB used both planned and emergent approach to manage change and the major challenges faced during the implementation of change was resistance to change. The issue of confidentiality, individual perception of change and research methodology limited the study. The research recommends that a further study should be conducted on the nine Microfinance Banks to establish their strategic change management practices. This will help policy and regulatory bodies to plan best practices in relation to the microfinance banking subsector which is still growing.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Organizations are open systems that operate in an environment which is constantly changing. Rapid changes in technology, business trends, social, cultural, political as well as environmental factors are some of the drivers of change. Organizations have to strategically manage change to align themselves to the same in their environments and hence the need for the managers of Microfinance institutions to introduce new strategies that will enable organizations to survive in the turbulent environment. The Microfinance industry in Kenya faces many challenges including increased awareness and demands from customers which has been facilitated by internet connectivity, mergers and acquisitions, stiff competition from the commercial banks and other licensed financial institutions.

Managing change in strategy is part of the execution of the organization's strategy. Strategy integrates an organization's major goals, policies, and action sequences into a cohesive whole (Mintzberg et al, 2003). Johnson, Scholes and Whittington, (2008) define strategy as the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations. A strategy of a corporation forms a comprehensive master plan that states how the corporation will achieve its mission and objectives. It maximizes competitive advantage and minimizes competitive disadvantage (Wheelen and Hunger, 2008).

A well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents (Mintzberg et al, 2003). Strategy as originally conceived is unlikely to prove entirely suitable over time. Every organization must modify its strategy in response to changing market conditions, advancing technology, the fresh moves of competitors, shifting buyer needs and preferences, emerging market opportunities, new ideas for improving the strategy, and mounting evidence that the strategy is not working well (Thomson, Strickland and Gamble, 2007).

Some of the theories that form the foundation for change management include the Open System Theory, the Institution Theory, and the Group Dynamic Theory. Open System Theory is a modern systems based change management theory designed to create healthy, innovative and resilient organizations and communities in today's fast changing and unpredictable environments. As organizations and communities conduct their business they influence and change their external environments, while at the same time being influenced by external changes in local and global environments. The institution theory studies how organizations can increase their ability to grow and survive in a competitive environment by becoming legitimate, reliable and accountable in the eyes of their stakeholders.

Sumac Microfinance Bank Limited (SMFB) was started in 2004 by a few friends whose intention was to undertake an income generating activity together. With time, the friends decided to register a credit company. The organization has gone through major strategic changes. It has evolved from a credit company through a deposit taking microfinance to a microfinance bank. It was licensed by Central Bank to operate as a microfinance institution in 2010. In year 2012, SMFB was licensed to operate as a microfinance bank. Massive changes which have structurally affected organizational frameworks and nature of operations need solid managerial change strategies which will drive the organization to its new vision and mission. As a result of the above, strategic change management concept becomes relevant in this business scenario.

1.1.1 The Concept of Strategic Change

Strategic change management is the process, tools and techniques of business to achieve the required business outcome (Cumming and Worley, 2009). Strategic change involves fundamental changes in the business of the organization and its future direction. The purpose of strategic change is to ensure that organization is heading in the right direction. There are two types of change. Operational change and Strategic change. Operational change is the type of change aimed at ensuring that the organizational activities are being performed in the best way possible. Strategic change involves fundamental changes in the business of the organization and its future direction. Successful strategic change is built on an overall strategic management system of the organization. Strategic management practices covers organization-wide issues in the context of a whole range of its operational influences (Pearce and Robinson, 2011). To manage strategy is frequently to manage change; to recognize when a shift of a strategic nature is possible, desirable, necessary, and then to act (Mintzberg, Lampel, Quinn, and Ghoshal, 2003).

According to Kanter (1983), change management is a structured and systematic approach to achieving a sustained change in behavior within an organization. Burnes (2004) agrees with many others in observing that organization environments have become less benign, more complex, more interconnected, and more dynamic producing conditions that pose the need for fundamental change while making it difficult to learn and change.

Balogun and Hailey (2008) identified four types of strategic change. These include adaptation, reconstruction, revolution, and evolution. Adaptation is change that can be accommodated within the current culture and occur incrementally. Reconstruction is change that may be rapid and involve a good deal of upheaval in an organization, but which does not fundamentally change the culture. Revolution is change that requires rapid and major strategic but also cultural change. Evolution is change in strategy that requires culture change, but over time. It may be that managers anticipate the need for transformational change. They may then be in a position of planned evolutionary change, with time in which to achieve it. Evolution may also be explained in terms of an idea of a learning organization, where an organization adjusts its strategy as the environment changes (Johnson, Scholes, Whittington, 2008).

The four main types of change as suggested by Balogun and Hailey (2008) are defined in terms of two dimensions which are the end result and the nature of change. Change can involve a transformation of the organization or a re-alignment. Transformation is a fundamental change within the organization requiring a shift in strategy, structures, systems, processes and culture. Realignment is a change to the ways things are done. It does not involve a fundamental reappraisal of the central assumptions and beliefs within the organization, although it may still involve substantial change like a major restructuring. The other forms are as a result of the way change occurs. This results in planned change and emergent change that organization must cope with and manage.

1.1.2 Banking Industry in Kenya

The Banking industry in Kenya is regulated and governed by the Central Bank of Kenya (CBK) Act, Companies Act and Banking Act and the various prudential guidelines issued by CBK. In 1995 the exchange controls were lifted after the liberalization of the banking sector in Kenya. The CBK which falls under the Ministry of Finance is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2011, there were forty six banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The locally owned financial institutions comprise three banks with significant government shareholding and twenty eight privately owned commercial banks. The foreign owned financial institutions comprised eight locally incorporated foreign banks and four branches of foreign incorporated banks. Of the forty two private banking institutions in the sector, 71% are locally owned and remaining 29% are foreign owned (Central Bank of Kenya, 2014).

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. CBK oversees the operations of all commercial banks. During the on-site inspections, all risks are evaluated and necessary remedial actions are recommended. The banks have come together under the Kenya Bankers Association, which serves as a lobby for the banking sector’s interests. The banking industry has evolved dynamically. New banking services and programs have since been introduced like agency banking and money transfer services.

1.1.3. Microfinance Institutions In Kenya (MFIs)

Th**e** Microfinance Institutions in Kenya (MFIs) are regulated and governed by CBK under the Microfinance Act, 2006 and Microfinance regulations 2008. The act and the regulations set out the legal, regulatory and supervisory framework for the microfinance industry in Kenya. The principal object of the Microfinance Act is to regulate the establishment, business and operations of microfinance institutions in Kenya through licensing and supervision. The act enables the Deposit Taking Microfinance institutions to mobilize savings from the general public, thus promoting competition, efficiency and access.

The main objective of the MFIs is to provide financial services especially loans and savings to the low income earners particularly women who operate mainly in the rural areas and the slums (Central Bank of Kenya, 2014). Prior to the MFIs joining the banking industry, Commercial banks were not willing to give credit to this category of people as they could not provide the required security. The low income earners also shun the commercial banks thinking they serve only the rich in the society. Since when the MFIs joined the banking sector, many poor households have enjoyed access to small loans and thus improving their livelihood.

1.1.4 Sumac Microfinance Bank Limited (SMFB)

SMFB is a private company limited by shares and incorporated in Kenya under the companies Act. It started as a credit company in 2004, giving bridging loans to people especially those in business. Like all the other microfinance institutions, Sumac also targets low income generating business men and women and thus its slogan is empowering business.

SMFB has two branches in Nairobi. One branch is located in the Consolidated Bank building along Koinange Street and the other one along Park road in Ngara. The institution has developed a wide range of quality and innovative products and adapted their services through the use of technology including mobile banking and ATM for the convenience of their customers. The organization offers savings accounts, fixed deposit accounts, business loans, personal loans, bridging loans, asset financing, bind bonds, performance bonds, general and health Insurance and insurance premium financing. The institution is working on the logistics of providing current accounts and foreign exchange services. Stiff competition from other banks who have their own microfinance departments do offer challenges and competition. Due to the competitiveness in the industry in which Sumac does business, the organization has adopted Porter's five forces framework to enable the organization come up with strategies that will enable the business compete successfully in the banking industry.

1.2 Research Problem

Pettigrew (1997) argued that change is never a one-off or isolated event. It cuts across functions, spans hierarchical divisions, and has no neat starting or finishing point but instead it is a complex analytical, political, and cultural process of challenging and changing the core beliefs, structure and strategy of the firm. This creates the need for major strategic reorientation which occurs rather infrequently and when it does, it means moving from a familiar domain into a less well-defined future where many of the old rules no longer apply and in many circumstances staff or an organization must often abandon the roots of their past successes and develop entirely new skills and attitudes.

Practitioners and academicians agree that change is a constant feature in organizations that would like to survive in their respective fields. It builds on prior strategy. It is adaptive in the way it occurs, with only occasional more transformational changes. It is beneficial for change to be incremental since such change should build on the skills, routines and beliefs of those in the organizations. The members of staff are also likely to understand the change and be committed to it (Johnson, Scholes, Whittington, 2008).

To help cope and operate in this competitive field, microfinance institution through their umbrella body Association of Microfinance Institutions (AMFI), approached Parliament and sought amendments to section 14(1) of the Microfinance Act by deleting the sections that prohibited deposit taking microfinance institutions from operating current accounts, issuing third party cheques and dealing in foreign trade transactions. SMFB took advantage of this and quickly put in place a road map to ensure it changed from deposit taking microfinance institution to a finance bank. The bank has focused on the people in business people. The bank has developed tailor made and unique products to serve this kind of target market. The bank accepts motor vehicles, shares of the Kenyan blue chip companies quoted at the Nairobi Stock Exchange, title deeds, and personal guarantees. Plans are underway to also accept household items such as Television sets as collateral to offer loans and other financial support. They also charge reasonably low rates of interest to suit these kinds of customers. By managing strategic change, SMFB achieved its goal.

It is also worth noting that change management is a very complicated undertaking which managers find challenging. Mintzberg et al. (2003), authoritatively confirm that despite change in organizations being greatly spoken about, it is too often done in bits and pieces. It is often times referred to as transformation, turnaround, revitalization, cultural change, total quality management, venturing, new product development among other terminologies.

Previous related researches have been conducted in this area of study. Andugo (2013) did a study on management of strategic change at Consolidated Bank of Kenya Limited and found out that the bank management adopted a corporate strategic plan whose key pillars were, a human resource strategy that incorporated a job evaluation process, cultural change and empowerment and an information, communication and technology (ICT) development plan. Mironga (2012) did a study on challenges of managing strategic change at the Nairobi City Water and Sewerage Company and found that failure to recognize and implement changes, lack of understanding of strategy implementation, failure of customers and staff to appreciate change, corruption and incompetence are the main obstacles in managing strategic change in that organization. A study done by Musyoka (2010) on Strategic Change Management practices at DT Dobie Ltd concluded that environmental factors and leadership influences strategic change management and the major challenges of implementing change includes lack of a documented strategy, mistrust among employees, lack of financial resources, lack of knowledge in strategic change, and the organizational culture. Kamuti (2013) in his study on the challenges of Implementing Strategic Change Management at National Water Conservation and Pipeline Corporation concluded that the organization has been facing the following challenges in implementing the various strategic changes: lack of team work, low level of trust. Work place politics, poor allocation of resources, paralyzing bureaucracy, arrogant attitudes, general fear of unknown, poor communication, and lack of training of staff on areas of strategic changes. None of the above studies seem to have undertaken a similar case as my study and hence the research gap. The study seeks to answer the following question in relation to SMFB: 'What strategic change initiatives has the SMFB undertaken to keep pace with the ever changing business environment?

1.3 Research Objective

The objective of this study was to determine the strategic change practices at Sumac Microfinance Bank Limited.

1.4 Value of the Study

The study will form a basis for other researchers and academicians for further research and generate knowledge on the subject of management of strategic change practices in finance and microfinance institutions so that they can offer valuable guidance in their various academic programs.

The study will also provide useful information to practitioners in this and related fields of entrepreneurship in knowing the importance of management of strategic change in keeping their organizations competitive.

The study will also be useful since it will explore the challenges of strategic change implementation and suggest possible practical solutions. This will help policy and regulatory bodies to plan best practices in relation to the microfinance banking subsector which is still growing.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the review of literature related to managing strategic change which includes theoretical foundation of the study, managing strategic change, approaches and practices of managing strategic change, strategic change implementation, dealing with resistance to change and evaluating strategic change .

2.2 Theoretical Foundation of the Study

By explicitly outlining and understanding some form of theory, it becomes easier to explain the reason why an intervention may work to induce planned change. Various theories have been developed that explain what makes a firm become competitively sustainable within the industry.

Open System Theory was initially developed by Ludwig von Bertanlanffy in 1956 (Laszlo and Kripper, 1998). This is a modern systems-based change management theory designed to create healthy, innovative and resilient organizations and communities in today's fast changing and unpredictable environments. As organizations and communities conduct their business they influence and change their external environments, while at the same time being influenced by external changes in local and global environments.

Cole, (2004) define system as collection of parts which form some whole. Drawing from Katz, Kahn and Hanna in (Wendell & Cecil, 1999), all open systems are input-throughput-output systems that take from the environment in form of energy, information, money, people and raw materials and via throughput transforms or convert the input into final output that are exported to environment.

The Institution Theory studies how organizations can increase their ability to grow and survive in a competitive environment by becoming legitimate, that is, accepted, reliable and accountable in the eyes of their stakeholders (Jones, 2010). New organizations suffer from the liability of newness, and many die if they cannot develop the competences needed to attract customers and obtain scarce resources. To increase their scarce resources as they grow, organizations must become acceptable and legitimate in the eyes of their stakeholders, and they do this by satisfying the latter’s needs. The institution theory argues that it is as important to study how organizations develop skills that increase their legitimacy to stakeholders as it is to study how they develop skills and competences that increase their operational efficiency. It also argues that to increase their chances of survival, new organizations adopt many of the rules and codes of conduct found in the institutional environment surrounding them. Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures.

North (1991) defines institutions as humanly devised constraints that structure political, economic and social interactions. Constraints, as North (1991) describes, are devised as formal rules, constitutions, laws, property rights and informal restraints, sanctions, taboos, customs, traditions and code of conduct, which usually contribute to the perpetuation of order and safety within a market or society. The degree to which they are effective is subject to varying circumstances, such as a government's limited coercive force, a lack of organized state, or the presence of strong religious precept.

Meyer and Rowan (1977), argue that often these institutional myths are merely accepted ceremoniously in order for the organization to gain or maintain legitimacy in the institutional environment. Organizations adopt the vocabularies of structure prevalent in their environment such as specific job titles, procedures, and organizational roles. The adoption and prominent display of these institutionally-acceptable trappings of legitimacy help preserve an aura of organizational action based on good faith. Legitimacy in the institutional environment helps ensure organizational survival.

Formal structures of legitimacy can however reduce efficiency and hinder the organization's competitive position in their technical environment. To reduce this negative effect, organizations often will decouple their technical core from these legitimizing structures. Organizations will minimize or ceremonialism evaluation and neglect program implementation to maintain external and internal confidence in formal structures while reducing their efficiency impact. DiMaggio and Powell (1991), conclude that the net effect of institutional pressures is to increase the homogeneity of organizational structures in an institutional environment. Firms will adopt similar structures as a result of three types of pressures. Coercive pressures come from legal mandates or influence from organizations they are dependent upon. Mimetic pressures to copy successful forms arise during high uncertainty. Finally, normative pressures to homogeneity come from the similar attitudes and approaches of professional groups and associations brought into the firm through hiring practices.

The Group Dynamics theory originated with the early work of Kurt Lewis. Its emphasis is on bringing about organizational change through teams or work groups, rather than individuals (Bernstein, 1968). The rationale behind this according to Lewin (1947), is that because people in organizations work in groups, individual behavior must be seen, modified or changed in the light of groups' prevailing practices and norms.

The Group Dynamics School has proved to be very influential in developing both the theory and practice of change management. This can be seen by the very fact that it is now usual for organizations to view themselves as comprising groups and teams, rather than merely collections of individuals (Mullins, 2010). When teams meet, they have a goal of improving their effectiveness through better management of task demands, relationship demands and group processes. They analyze their way of doing things, and attempt to develop strategies to improve their operation (French and Bell, 1984: 127-9).

2.3 Managing Strategic Change

Managing change in a small entrepreneurial business, where a motivated team is driving change, would be quite different from trying to manage change in a major corporation, or a long established public sector with set routines, formal structures and perhaps a great deal of resistance to change. Approaches to change cannot be transferable between contexts. For example many government departments in different parts of the world have sought to import change management practices from consultancies or by recruiting managers from commercial enterprises but have not fully succeeded (Johnson, Scholes, and Whittington, 2008). In Kenya, a high level team that comprised of technocrats was brought into the civil service to turn around the economy but was met with resistance especially from the senior civil servants and was disbanded in less than two years.

The approach that the managers should use therefore depends on the situation and the context of change. Balogun and Hope (1991) in Johnson, Scholes and Whittington (2008), highlighted important contextual features that need to be taken into account in designing change programmes. These includes time (how quickly change is needed), scope (how much change is required), preservation (what organizational resources and characteristics need to be maintained), diversity (how homogeneous the staff groups and divisions within the organization are), capability (what the managerial and personal capability to implement change is), capacity (the degree of change resource available), readiness (how ready for change the workforce is), and what power the leader has to impose change (Johnson, Scholes, and Whittington, 2008).

To deal with high velocity change, an organization can assume any of the following strategic postures. It can react to change, anticipate change, or lead change. Competitive success in a fast changing market tends to hinge on a company's ability to improvise, experiment, adapt, reinvent, and regenerate as market and competitive conditions shift rapidly and sometimes unpredictably. It has to constantly reshape its strategy and its basis for competitive advantage, invest aggressively in R&D to stay on the leading edge of technological know-how, keep the company's products and services fresh and exciting enough to stand out in the midst of all the change that is taking place and develop quick- response capability.

2.4 Approaches and Practices of Managing Strategic Change

In broad terms, there are two approaches to strategic change management. Planned approach and the emergent approach. Planned change is a term first coined by Kurt Lewin to distinguish change that was consciously embarked upon by an organization as opposed to unintended changes such as those that might come about by accident, by impulse, by understanding or that might be forced on unwilling organization (Burnes, 2009). In this case planned change means that the organization identifies an area where it believes change is required and undertakes a process to evaluate and if necessary bring about change.

Planned change is an interactive, cyclical, process involving diagnosis, action and evaluation and further action and evaluation. It is a process that recognizes that once change has happened, it must be self-sustaining. Central to planned change in organizations is the emphasis placed on the collaborative nature of the change effort. The managers, the recipient of change and the change agent jointly diagnose the organization's problem, plan and design the necessary changes (Burnes, 2009).

Emergent approach of change is viewed as a process that unfolds through interplay of multiple variables within an organization (Ogutu, 2012). It is an open ended and unpredictable process of aligning and realigning the organization to its changing environment. The proponents of emergent change are of the opinion that change is a continuous, dynamic and contested process that emerges in an unpredictable and unplanned fashion. According to Weick (2000), the advantages of emergent change are sensitivity to local contingencies; suitability for on-line real-time experimentation, learning, and sense making; comprehensibility and manageability. It has the likelihood of satisfying needs for autonomy, control, and expression; proneness to swift implementation; resistance to unraveling; ability to exploit existing tacit knowledge; and tightened and shortened feedback loops from results to act.

Organizations dealing with emergent approach to change should promote, throughout the organization, an extensive and deep understanding of strategy, structure, systems, people, style and culture, and how these can function either as sources of inertia that can block change, or alternatively as levers to encourage an effective change process (Dawson,2003; Pettigrew,1997; Wilson,1992).

2.5 Strategic Change Implementation

Managing change is a very difficult task. Kurt Lewin, whose force-field theory argues that organizations are balanced between forces for change and resistance to change, has a related perspective on how managers can bring change to their organization. In Lewin's view, implementing change is a three- step process: unfreezing the organization from its present state, making the change and refreezing the organization in the new, desired state so that its members do not revert to their previous work attitudes and role behaviors. To get an organization to remain in its new state, managers must actively manage the change process (Jones, 2010).

Action research is a strategy for generating and acquiring knowledge that managers can use to define an organization's desired future state and to plan a change program that allows the organization to reach that state. The techniques and practices of action research, developed by experts, help managers unfreeze an organization, move it to its new, desired position, and refreeze it so the benefits of change are retained (Jones, 2010).

The first step in action research requires managers to recognize the existence of a problem that needs to be solved and acknowledge that some type of change is needed to solve it. The next step is to appoint an external or internal change agent who will be responsible for making the changes and controlling the change process. The third step is deciding which specific change strategy will most effectively unfreeze, change, and refreeze the organization (Jones, 2010).

There are other theoretical models of change that attempt to describe the process through which organizations successfully alter their organizational structure or climate. These models include Bullock and Batten's four-phase model, Kotter's 8 steps model, Kanter's ten Commandments for executing change, Processual Model, Logical incrementalism, and Learning organization model.

Kotter, (1995) came up with a top-down approach to implement strategic change and suggested the following eight steps to transform a corporation for its overall managers. Establishing a sense of urgency, examining market and competitive realities, identifying and discussing potential crises or major opportunities, forming a powerful guiding coalition by assembling a group with enough power to lead the change effort and encouraging the group to work together as a team, creating a vision to help direct the change effort by developing strategies for achieving that vision, communicating the vision using every vehicle possible to communicate the new vision and strategies as well as teaching new behaviours by the example of the guiding coalition, empowering others to act on the vision by getting rid of the obstacles to change; changing systems or structures that seriously undermine the vision; encouraging risk taking and nontraditional ideas, activities, and actions, planning for and creating short-term wins, consolidating improvements and producing still more changes, and lastly by institutionalizing new approaches.

Beer, Eisenstat, and Spector (1990) however suggested the following six steps which they referred to as Bottom-up change: mobilize commitment to change through joint diagnosis of business problems, develop a shared vision of how to organize and manage for competitiveness, foster consensus for the new vision, competence to enact it, and cohesion to move it along, spread revitalization to all departments without pushing it from the top, institutionalize revitalization through formal policies, systems and structures, and monitor and adjust strategies in response to problems in the revitalization process (Mintzberg et al , 2003). Actual or Potential changes in the external environment require organizations to make choices over how and when to respond.

2.6 Dealing with Resistance to Change

Resistance to change occurs at all levels of an organization. It manifests itself as organizational politics and power struggles between individuals and groups, differing perceptions of the need for change. The tactics that managers can use to reduce the resistance to change include education and communication, participation and empowerment, facilitation, bargaining and negotiation, manipulation and coercion (Jones, 2010).

Education and communication enables the agents provide organizational members with information about change and how it will affect them. Participation and empowerment aids in making the workers implement the change successfully, and give them autonomy to change work procedures to improve organizational performance. The workers have to be involved right from the beginning. During facilitation, the workers learn how to perform new tasks. Some organizations engage psychologists and consultants who specialize in helping employees to handle the stress associated with change. Bargaining and negotiation are important tools to help the managers manage conflict. Coercion speeds the change process but can leave people angry and make refreezing process difficult and therefore it should be used as a last result.

Organizational change often fails because not enough strategic thought is given to communicating the rationale, the progress and the impact of the change (Klein, 1996). The way in which organizations communicate with their employees during a change has been shown to have significant effects on the success of change initiatives, in particular an individual commitment, morale, and retention (Goodman and Truss, 2004).

2.7 Evaluating Strategic Change

Evaluative research is undertaken to determine the value of some initiative such as a programme or policy (O'Leary 2005). When change management has occurred there is need to evaluate the change. This will inform on whether change happened as planned and achieved the desired outcomes or otherwise. Findings of evaluative studies are considered crucial to rational and informed decision making to managers of organizations. According to O'Leary (2005) Evaluative studies can relate to outcomes; the change work or on the process, so that there is an inquiry on how the design and implementation of the initiative can be improved.

Rather than being defined by any particular methodological approach, evaluative goals and perspectives ought to determine appropriate methodology. Multiple and diverse process evaluation methods include interviews, surveys, focus groups, observation and document review. These methods can also be important tools in outcome evaluations that seek provider and community perspectives O'Leary (2005). Managing politics of change can make evaluation easiest if the employees and leadership objectives and expectations are made clear and are openly negotiated at the beginning of the change process.

Organizations too, rely on strategic partnerships with outside suppliers and with companies making tie-in products and initiate fresh actions every few months, not just when a competitive response is needed, planning for and creating short-term wins, planning for visible performance improvements, creating those improvements as well as recognizing and rewarding employees involved in the improvements, consolidating improvements and producing still more changes; using increased credibility to change systems, structures, and policies that do not fit the vision; hiring, promoting and developing employees who can implement the vision, reinvigorating the process with new projects, themes, and change agents, and institutionalizing new approaches.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design that was used in the study. It also shows the data collection techniques, the methods that was used and the way data that was collected from SMFB was analyzed.

3.2 Research Design

A case study design was used. According to Kothari (2004) a case study is a form of qualitative analysis which involves a careful and complete observation of a social unit which can be a family, a person, a cultural group, or an entire community or institution. Case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. An emphasis on detail provides valuable insight for problem solving, evaluation, and strategy. This detail is secured from multiple sources of information. It allows evidence to be verified and avoids missing data. A single well-designed case study can provide a major challenge to a theory and provide a source of new hypothesis and constructs simultaneously (Cooper and Schindler, 2007). The results of this study will be expected to provide an insight on how SMFB needs to sustain its change momentum in order to remain competitive in the current turbulent and sometimes hostile business environment.

Atandi (2010), reiterate that previous studies of similar nature have successfully used this method. Mugenda and Mugenda (2003), also points out that a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. It is a method of study in depth rather than breadth and lays more emphasis on a limited number of events and other interrelations.

3.3 Data Collection

The study used both primary and secondary data. The primary data was collected using face to face interviews between the researcher and respondents. Data collection instrument used was an interview guide. The instrument consisted of open ended questions to elicit specific responses for qualitative analysis. The respondents were heads of key departments; Operations, Finance and Administration, Business Development, Branches and the ones working closely with the Chief Executive Officer who are knowledgeable on the change process that SMFB has undergone.

Five respondents gave enough information necessary for this study. Primary data was supplemented with secondary data obtained from organizational documents such as strategic plan, audit reports, and annual reports. The interview guide was sent to the informants a few days to the interview date to enable them recollect facts and refer where necessary.

3.4 Data Analysis

Data obtained was qualitatively analyzed using content analysis techniques. The responses received were qualitative in nature and they were analyzed using content analysis. Content analysis refers to a set of procedures for collecting and organizing information in a standardized format that allows analysts to make inferences about the characteristics and meanings of written and other recorded material. Simple formats can be developed for summarizing information or counting the frequency of statements. More complex formats can be created for analyzing trends or detecting subtle differences in the intensity of statements. It enables researchers to shift through large volumes of data with relative ease in a systematic fashion (Cooper and Schindler, 2007).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter consists of the findings and discussion of the data gathered from the interview conducted and data extracted from the secondary sources. The chapter includes the strategic change management practices at SMFB.

4.2 General Information

The informants included the Managing Director (MD), the Finance and Administration Manager, the Operations Manager (OM), the Business Development Manager (BDM) and one Branch Manager. All the managers have a wide experience in the banking industry with the MD, the OM and the Branch Manager having hands on experience on strategic change management in one of the international banks. These respondents were chosen since they had knowledge of the institution and its procedures and were actively involved in the formulation and implementation of the change strategies.

The strategic Plan of SMFB indicated that the institution had an intention to evolve to a bank but not within the period that the changes in the environment took place. The management had therefore to integrate the emergent approach to manage the strategic change while at the same time implement the changes as planned. The employees with a wide experience in banking willingly share the best practice with the newly employed employees. The employees have been trained on policies and procedures of the banking industry in order to acquire the banking skills. Communication is a two way and the employees have been encouraged to feel free in communicating any information necessary to enable the organization achieve its objectives. Meetings are held regularly to discuss any issues that may have risen in the process of implementing the strategic change.

4.3 Managing Strategic Change at Sumac Microfinance Bank Limited.

The interviewees expressed their knowledge of strategic change and its importance on the existence, growth and the success of the organization. Change management at Sumac was inevitable now that the institution was licensed to operate as a Microfinance Bank and have to cope with the massive changes in this sector and remain competitive in the industry.

The interviewees said that the change at Sumac was triggered by the actions of the competitors especially the big banks and the changes in technology. As a result of changes in technology, mobile banking and use of ATM cards were introduced. Other services that were introduced included Western Union money transfers, M-pesa and Airtel agencies. The institution also upgraded the information System. Training was carried out by external trainers in collaboration with the existing staff well versed in banking operations. This greatly reduced resistance to change as earlier experienced from staff, as they had acquired additional skills in banking operations. Job security and a heightened working morale was noted among staff.

The employees who were interviewed cited that all the stakeholders were involved in the strategy formulation and this makes it easy to implement. All the respondents were in agreement that the situation was first analyzed before any changes were introduced. Academicians as well as practitioners agree that Change is a constant feature in life. In the process of implementing change, some of the strategies are found not working and they are therefore changed.

The interviewees pointed out that financial constraint was one of the challenges that was experienced during the implementation of change. Their argument was that substantial amount of money was required to open new branches, renovate the existing branch, acquire new office equipment, rebrand, research on new products and services, pay consultants and advertise in the media houses. To overcome this challenge, some employees suggested that a new strategic investor would be required to inject more capital while others suggested that the organization should consider selling shares to the public through private placement.

4.4 Discussion

The Informants cited resistant to change as a major challenge that was experienced during the implementation of change. This finding is in agreement with Jones, (2010) who says that resistance to change occurs at all levels of an organization. He also suggests ways of handling the resistance depending on the cause of resistance. The resistance to change at Sumac was due lack of knowledge of banking operations. Most of the employees lacked the necessary banking skills, others did not feel comfortable parting with their friends who were earmarked to be transferred to the new branches. One of the managers is quoted as saying; 'Some employees who were transferred to the first new branch expressed their desire to go back to head office because at the branch they were expected to go to the field to do marketing'. To overcome this challenge, external consultants were engaged to train staff and some of the new employees who had a wealth of experience in the banking sector were encouraged to undertake on the job training. The managers used some of the tactics as recommended by Jones, (2010) which are education and communication, participation and empowerment, bargaining and negotiation.

The need for change was continuously communicated to all employees during the staff meetings. The files containing minutes of the regular meetings were provided. Although the interviewer was not allowed to read the minutes of the regular meetings, they were shown the files. The employees who supported the change were promoted and transferred to the new branch while the rest were given end of the year bonuses. Those who could not cope with change were allowed to leave the organization.

The other challenges as explained by the respondents were financial constraints, internal politics and power struggles among the employees. A similar study done by Kamuti (2013) on changes of implementing Strategic change at National Water Conservation and Pipeline Corporation also found out that work place politics was one of the challenges faced by the Organization. Some employees did not feel comfortable parting with their friends who were earmarked to be transferred to the new branches. To overcome this challenge, external consultants were engaged to train staff and some of the new employees who had a wealth of experience in the banking sector were encouraged to undertake on the job training. The need for change was continuously communicated to all employees during the staff meetings. The employees who supported the change were promoted while the rest were given end of the year bonuses. Those who could not cope with change were allowed to leave the organization.

The study found out that the key challenge experienced in management of change was resistance to change. Resistance to change was attributed to fear of job loss due to lack of the necessary skills and unwillingness to leave the comfort zone. Other elements realized within the study denote that change fosters uncertainty about the future, stimulates fear about loss of jobs, prefers status quo, and is naturally threatening. The study also observed that resistance to change causes delays in implementation, additional costs, and reduction in performance.

The other constraint observed in the study was lack of adequate financial resources. A lot of money was required to open new branches, pay the trainer and external consultants especially those who did the market research and advertisements. It was necessary to advertise to create awareness to the public of the existence of Sumac and the products offered by the organization. Although Sumac has been in existence for approximately ten years, the company had previously not advertisement its products in the media. Their marketing strategy was mainly through refers.

As per the information provided by the employees, Sumac used the two approaches of managing change that is planned approach and emergent approach. It had been planned that the Organization would eventually become a bank in the future projections. This information was retrieved from the organization's strategic plan. During the implementation of the strategy, some issues emerged that needed to be addressed for example clients demanded mobile banking and ATMs and the company had to adjust accordingly.

The study found out that employees met every morning to discuss the progress and receive any communication from the top management. The top management held a weekly and a monthly meeting whereby progress was discussed in detail and any issues affecting the change was addressed. Employees were encouraged to raise any concerns without fear of victimization. The top management supported the change which is in agreement with Jones, (2010) that top management support and commitment to change play an especially crucial role in successful implementation of strategic change.

The employees were trained to equip them with the right skills to work efficiently and accept change. Employees who supported the change were adequately rewarded in form of promotion and cash incentive to motivate them while those who frustrated the change were asked to leave organization. Coercion was not used to make the employees adopt change.

4.5 Comparison with Theory

SMFB is an open system that relies on other institutions for its inputs and need the other institutions to consume its goods and services. The organization needs the major banks to clear the cheques that are deposited by its clients. It needs customers who operate in other sectors to buy its many products and services. The open system theory is therefore applicable in managing strategic Change in this organization. SMFB has come up with a way of becoming legitimate or acceptable in the banking industry in order to survive as per the proponents of the Institution theory. Team work is very well demonstrated at SMFB which is in line with the group dynamics theory.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The following discussions, conclusion and recommendations were made from analyzing the collected data. The responses were based on the objective of this study which was to determine the strategic change practices at Sumac Microfinance Bank Ltd.

5.2 Summary of Findings

The study revealed that it was necessary for SMFB to undertake a strategic change. This change was driven by external factors including the actions of the competitors particularly the major banks that introduced microfinance departments in their organizations and the technological Changes. There was also a need to change the name from Sumac Deposit Taking Microfinance (DTM) to Sumac Microfinance Bank Limited so that the public may know that the institution offered banking services.

The results indicate that competitive change strategies by SMFB are derived from an understanding of the industry analysis as outlined in Porter's five forces framework; intensity of competitive rivalry, threat from new entrants, threat from substitutes, bargaining power of buyers and bargaining power of suppliers. The ultimate goal of competitive strategy is to manipulate these factors in favour of SMFB.

Results also indicate that leadership in SMFB strongly influence change. The shareholders injected a lot of capital required to implement change. Employees positively embraced the change due to the good communication in the organization. The top management fully supported the change programme and provided good leadership. It was observed that the management carry out research on the improvement that can be effective in the organization as a whole then organized meetings to discuss the findings and the significance attached to the change. The finance manager ensures that cost incurred while changes implemented do not cause a lot of constraints to the financial resources. SMFB has sufficient human capital to manage the necessary changes.

Sumac introduced many products and services that meet the needs of their customers. Further research is carried out to come up with attractive products that match the customers' tastes and preferences. The organization also strives to ensure that their customers are served efficiently and effectively. Worth noting is that loan application and processing is accomplished in forty eight hours' time.

The results reviewed that the organization had formed two committees headed by the OM to oversee the change process and new product development. These committees reported to the MD on weekly basis. External consultants were contracted to offer adequate training to change champions and other employees on banking processes and procedures including the use of the new information system. New information was communicated to all the members of staff during the daily meetings. Communication helped in clarifying the objectives of change to all employees and helped reduce fear of job loss.

Findings also established that the top management supported the changes. They played the role of crafting the objectives of the change, communicated the urgency of change and provided the necessary financial and human resources. The employees were fully engaged in the whole process which resulted in them supporting the change and implementing it successfully.

5.3 Conclusion

The study sought to determine the strategic change practices at SMFB. The study reviewed that SMFB followed both the planned and emergent approaches to manage the strategic change. This supports Mintzberg et al’s (2003) notion of strategy where they say that to manage strategy is to manage change. In the process of managing change, issues of mobile banking and use of ATM cards arose which had not been incorporated in the planned change.

Other various aspects of managing strategic change in this organization were analyzed. These include the way change was communicated to all the stake holders, level of involvement of employees, roles played by all the employees and the way monitoring and evaluation was carried out. The study also reviewed that SMFB is faced with challenges that delay successful implementation of strategic change practices. These are financial constraints to cater for additional costs required in marketing and advertising strategies as well as expansion programs.

There existed a resistance to change by staff attributed to fear of job loss and a reluctance to move out of the comfort zone. Staff lacked some of the necessary banking operations skills. This led to a general reduction in performance due to delayed implementation. Good communication is evident in that there is a two-way communication approach.

5.4 Recommendations for Policy and Practice

Strategic change management at SMFB requires time, adequate financial and human resources to be successful. The organization needs to have sufficient funds and enough time to support the implementation process. In order to have a sustainable competitive advantage, a firm must possess certain key resources that are valuable, relevant and not subject to duplication.

The management will need to address the challenges that are faced in the implementation of the strategic change. In the case of availability of funds, they should find out the requirements necessary to get finance from International Finance Corporation, Oikocredit, the World Bank and the Government of Kenya. These institutions exist for that purpose and therefore SMFB should not shy away from approaching them as this is the route other leading microfinance institutions have taken to finance their major projects.

The practical strategic change management practices identified by this study included a two way communication, motivation of staff, support from top management, and participation of all stakeholders in every stage of the whole process of strategic change management. Communication is vital as all stakeholders get to know the reasons and means of strategic change. It helps clarify how change will affect them and dispel fear of loss of job loss.

Participation in the change agenda for example in the identification of strategic issues, decision making, setting of priorities and drawing action plans. Such involvement foster a positive attitude towards change. The parties involved see constraints as insignificant as well as own and get committed to the process. It may also be a way of building readiness, motivation and capability for change.

In a nutshell, the implementation of the strategic change at SMFB is progressing on well. However the organization need to adopt a learning organization model whereby staff will need to be continuously learning new skills as change will always be expected to take place. The ability of the employees to change and adapt whenever necessary enables the organization to achieve a competitive advantage. Porter's five forces of industry analysis helped organization understand the competitive forces that exist in their environment so that they can come up with strategies that will enable them manage the changes and remain competitive.

5.5 Limitation of the study

The interview guide was administered to five members of staff in senior positions at SMFB. These individuals may have given the information based on their personal opinions and perception about managing strategic change at SMFB as opposed to the real situation in the organization. Some very important data necessary for this study may have been left out.

There is a policy on disclosure of information in financial organizations and therefore the interviewees withheld some crucial information which they termed as confidential. The interviewees also suspected that some of their secrets might be leaked to the competition and therefore chose not to disclose them. They also feared giving negative data about their company as this would lead to a reputational risk and loss of employment.

This was a case study focusing only on one organization among many that operate in the financial sector. The conclusions and generalizations based on only SMFB would not therefore give a true picture of the strategic change practices in the microfinance industry since other Microfinance Banks may have other practices different from this Company.

5.6 Suggestions for Further Research

Further research should be conducted on all the nine newly licensed microfinance banks to find out how they are managing the strategic change. Such a study will be extensive since it will have a wider coverage of strategic change management practices in Microfinance Banks.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE 6/10/2014

TO WHOM IT MAY CONCERN

The bearer of this letter FLORENCE NJERI GACHARA.

Registration No. D61/72165/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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 your assistance to enable him/her collect data in your organization.

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.

UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS 06 OCT 2014 MBA OFFICE P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX II: THE INTERVIEW GUIDE

This interview guide seeks to gather information in relation to managing strategic change at Sumac Microfinance Bank Ltd. Information given by the respondents will be treated in confidence and will be used only for academic purposes. The interview guide has two parts, A and B.

Part A: Background information

1. What position do you currently hold in your organization?

2. How long have you been in this position?

3. How long have you worked for Sumac Microfinance Bank Ltd?

4. When was Sumac Microfinance Bank Ltd. incorporated?

Part B: Managing Strategic Change at Sumac Microfinance Bank Ltd.

5. What forces of change are driving Sumac Microfinance Bank Ltd.?

6. In what areas has change been experienced most in your organization?

7. What strategies has your organization put in place to manage the change?

8. Have you changed any of the strategies or are they all successful?

9. Who was involved in the development and implementation of the change process?

10. Does the organization have change champions?

11. What role do you play in the change process?

13. Does the culture of your organization support the change implementation process?

14. What strategies were put in place to manage staff through the change process?

15. What challenges does this organization face in the implementation of the change strategy?

16. What successful outcomes does the organization proud itself of, about the change?

17. Have you noticed any resistance to change in the process of change management?

18. What measures have you adopted to safeguard the change already undertaken?

19. How were the following management activities carried during the process of managing strategic change in this organization?

- Communication
- Empowerment
- Training
- Motivation

20. What is your take in the future of this institution as far as change management is concerned?

APPENDIX III:LIST OF BANKS IN KENYA

1. ABC Bank (Kenya) Ltd.
2. Bank of Africa Ltd.
3. Bank of Baroda Ltd.
4. Bank of India Ltd.
5. Barclays Bank Ltd.
6. CFC Stanbic Bank Ltd.
7. Chase Bank (Kenya) Ltd.
8. Citibank Ltd.
9. Commercial Bank of Africa Ltd.
10. Consolidated Bank of Kenya Ltd.
11. Cooperative Bank of Kenya Ltd.
12. Credit Bank Ltd.
13. Development Bank of Kenya Ltd.
14. Diamond Trust Bank Ltd.
15. Ecobank Ltd.
16. Equatorial Commercial Bank Ltd.
17. Equity Bank Ltd.
18. Family Bank Ltd.
19. Fidelity Commercial Bank Limited
20. Fina Bank Ltd.
21. First Community Bank Ltd.
22. Giro Commercial Bank Ltd.
23. Guardian Bank Ltd.

24. Gulf African Bank Ltd.
25. Habib Bank Ltd.
26. Habib Bank AG Zurich Ltd.
27. I & M Bank Ltd.
28. Imperial Bank Kenya Ltd.
29. Jamii Bora Bank Ltd.
30. Kenya Commercial Bank Ltd.
31. K- Rep Bank Ltd.
32. Middle East Bank Kenya Ltd.
33. National Bank of Kenya Ltd.
34. NIC Bank Ltd.
35. Oriental Commercial Bank Ltd.
36. Paramount Universal Bank Ltd.
37. Prime Bank (Kenya) Ltd.
38. Standard chartered Kenya Ltd.
39. Trans National Bank Kenya Ltd.
40. United Bank for Africa Ltd.
41. Victoria Commercial Bank Ltd.
42. FirstRand Bank Ltd.
43. Bank of China Ltd.

Source (Central Bank of Kenya, 2014)

APPENDIX IV: LIST OF MICROFINANCE BANKS

1. Faulu Kenya Microfinance Bank
2. Kenya Women Microfinance Bank
3. Smep Microfinance Bank
4. Remu Microfinance Bank
5. Rafiki Microfinance Bank
6. Uwezo Microfinance Bank
7. Century Microfinance Bank
8. Sumac Microfinance Bank
9. U & I Microfinance Bank.

Source (Central Bank of Kenya, 2014)