MANAGEMENT OF STRATEGIC CHANGE IN KENYAN DEPOSIT TAKING MICRO FINANCE INSTITUTIONS

By:

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DECLARATION

This management research project is my original work and has never been submitted for the award of a degree in any other University or Institution of learning

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D61/70568/2008

This research project has been presented for examination with my approval as the university supervisor.

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First and foremost, I would like to thank God for giving me the gift of life and supportive family to actualize my dreams and aspirations.

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Am grateful to my family for giving the invaluable support to concentrate on this research paper.
DEDICATION

To my family: daughters, Sharon and Shirleen and my loving wife Stella for their support, patience and prayers as I pursued the course.
ABSTRACT

The study sought to investigate the management of strategic change within the DTMs in Kenya, a transition that has taken place in the last three years in Kenya painting a picture of how the DTMs are managing the process of strategic change and access how far the set milestones have been achieved. The study thus tries to understand the management of the strategic change process by the DTMs, the strategic measures adopted while underscoring the challenges the DTMs are facing in the process of adapting to the changes and how they are coping.

A census study design was used in studying the DTMs where both primary and secondary data was used to gather information in the strategic change management process. Primary data was gathered via interviews where specially designed questionnaires were used during the interviews with the top management of the transitioned DTMs. Secondary data was gotten from publications especially from AMFI the umbrella body of MFIs in Kenya, CBK, individual MFIs annual reports and publications, strategic plan reports and websites.

The research found out that the enactment of the Microfinance Act 2008 which in summary defines the role of CBK in regulating the Microfinance institutions in Kenya especially those that will mobilize deposits from the public, acted as great trigger to the transition process coupled by customers growing needs and stiff competition from both mainstream banks and mushrooming Mfi’s.
Consequently the Mfi’s had to change their ICT systems, recruit experienced staff while retraining the existing staffs in a bid to manage the transition. However the full effects of the transition are not yet fully felt as the time after transition is short and many milestones are yet to be actualized.
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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Change always makes things different. In some organization change just happens as an accidental occurrence while among other, it is upheld as an intentional, goal oriented activity, that is change is a proactive and purposeful organizational activity. Change is inevitable in any organization and its major stakeholders of the organization who determines failure and success of the organization. Changes taking place in the social fabrics within which organization operate within the context of their business operations. This include external and internal environment.

Change has always been a feature in an organization’s life which has been on the rise than ever before. Change is a transition from one state to another which must bring a difference. Change can be reversible or irreversible hence the risk involved in managing it. Change can be perceived as a condition and as a process. Hills & Jones (1999) describes change as a condition of what is happening internally and externally that the organization must accept. Thus change has both subjective and objective conditions which makes the change management challenging. The subjective conditions of change, which are imposed through; human behavior, culture, networks relations and politics can be in direct or indirect conflict with the objective conditions of change such as profitability gain competitive advantage and increasing the level effectiveness.

Strategic change is defined as the difference in the form, quality or state over time in an organization alignment with its external environment.
Watson (2003) defines strategic change as the changes in the content of a firm’s strategy as defined by its scope, resource deployments, competitive advantage and synergy.

1.1.1 Management of strategic change

Strategic management of change is about identifying and developing or embedding in an organization those changes that will ensure long-term survival of the organization. It aims at coping with both the environment in which the organization operates and constraints, challenges and threats it faces, thus ensuring that the organization and its environment remain in harmony, creating conditions for growth and prosperity, (Burnes, 2009)

Strategic change management affects the organization as a whole and its key direction is futuristic. It is build up on the overall strategic management system and is meant to improve on the effectiveness of the organization on value addition. It always aligns the organization to its environment to enhance sustainability of the organization. Senge P. (1990) noted that for any successful radical change to be adopted, the organization must discover how to top peoples commitment and capacity to team at the organizational level. This kind of learns demands that organizations and their members expect and adopt to change. (Therefore describes the dire need for strategic change management for every organization for success in the change process.)

Marrow (1969) distinguished change as a consciously embarked upon and planed by an organization as averse to types of change that might come about by accident, by impulse or night be forced on an organization. Mintzberg (1983) notes that strategic change is not a regular or continuous process but most offer an irregular and a discontinuous process.
Strategic change management therefore, is deliberate process of change that “uses systematic method to ensure that the organization is guided in the planned direction and conducted in an effective manner and completed within the targeted time frame and with desired results, (Davis & Holland 2000).

Management of strategic change is therefore the set of managerial decisions, actions, priorities, monitoring and control that are put in place to ensure long run performance of an organization and achievement of corporate goals. Successful strategic change management process depends largely on context in which change is taking place.

The time which completion is needed, the scope or degree of change, organization resources, diversity of staff groups and division in organization, managerial and personnel capabilities to implement change, readiness of work force to change, and power that change leaders to inspire change all play crucial role in change management of the strategic process (Johnson and Sholes, 2002)

1.1.2 Deposit Taking Microfinance institutions in Kenya

Microfinance is the provision of financial services to low income, poor and very poor self employed individuals, Ringeera R.W (2003). A microfinance institution is any institution that provides financial services to low income households and seeks to do so in a sustainable and efficient manner (AMFI, 2009). Globally, the microfinance industry has over the last decade experienced rapid increase in growth and interest due to its potential to provide crucial financial services to the unbanked population with an aim of alleviating poverty. Majority of the members of such institutions are lower income to middle income class and who operate micro or small and medium enterprises.
Traditionally, banks have not provided financial services to clients with little or no cash income according to Zeller et al (2002). Founders of the micro credit movement in the 1970s (such as Muhammad Yunus) have tested practices and built institutions designed to bring the kinds of livelihood opportunities and risk management tools that financial services provide to the doorsteps of poor people. While the success of Grameen bank (which now serves over 7 million poor Bangladesh women) has inspired the world, it has proved difficult to replicate this success in practice. In nations with lower population densities, meeting the operating costs of a retail branch by serving many customers has proven considerably more challenging (Omino G, 2000).

In the 1970s and 1980s, rural credit services aimed at promoting agricultural production and increasing incomes of smallholder farmers were primarily provided by government projects, development banks, cooperatives and NGOs.

Many of the micro-credit programs failed due to a combination of lack of attention to institution building, faulty design and implementation, and bad macroeconomic policies driven by political interests.

As a result, rural finance was almost considered a lost cause in the late 1980s (Nagarajan G. and Meyer L. R 2006). Such micro-credit schemes were characterized by over emphasis on outreach and carried heavily subsidized lending interest rates.

Saving mobilization (development of saving products for the poor) and sustainability of the institutions were entirely ignored. The results of these interventions were very poor repayment rates and frequently low impact.

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Ironically, the subsidy element was often highly attractive to the non-poor and more powerful and sometimes the original target groups were excluded.

At present, MFI outreach is basically through group lending schemes, which have limited capacity for financial resources. Okutoyi (1988) observes that financial institutions consistently compete for deposits as public confidence in the financial system keeps on being patronized.

This point is further underscored by Channon (1986) who points out that as result of the growing competition and rapid change more and more financing institutions worldwide are increasing their strategic planning efforts aimed at gaining competitive advantage. One of the ways is by strategically transitioning into deposit taking MFI’s. In Kenya there are estimated 3490 legally though unregulated constituted microfinance service providers including 3392 savings and credit co-operatives and co-operative like community-based intermediaries, 45 MFIs, 2 building societies and several commercial banks.

The microfinance sector in Kenya has faced a number of constraints and challenges and of late there has been stiff competition in the sector. The major challenges to the development of microfinance business in Kenya include lack of specific legislation and set of regulations to guide the operations. It is till recently that a microfinance bill was enacted that became an act of parliament. This law has enabled microfinance institutions to seek licensing for deposit taking.
Initially Microfinance institutions in Kenya were registered under eight different Acts of Parliament. Some of these forms of registrations did not address issues regarding ownership, governance, and accountability.

They contributed to a large extent to the poor performance and eventual demise of many Microfinance Institutions because of a lack of appropriate regulatory oversight. This has had a bearing on a number of other constraints faced by the industry, namely: diversity in institutional form, inadequate governance and management capacity, limited outreach, unhealthy competition, limited access to funds, unfavorable image and lack of performance standard. The lack of oversight, however, has enabled them to innovate and develop different techniques of providing microfinance services.

In the last 20 years, there has been a growing worldwide understanding on how microfinance institutions could deliver financial services to large number of households in a sustainable way.

The 'microfinance revolution' which emerged in the 1990s resulted in a significant paradigm shift focusing on the provision of financial services (loans, savings, insurance, money transfer, etc) on a sustainable basis.
However, the industry has been experiencing a revolution since year 2006 when the government passed the law (Microfinance act 2006) allowing regulation of MFIs and in year 2008 when the government again passed a legislation (Microfinance Regulation act 2008) to allow MFIs to mobilize deposits from the public.

Since 2008, majority of MFIs in Kenya have been preoccupied with developing systems and procedures, developing financial products, building the capacity of their staff, mobilizing resources, developing their strategic and operational plans, and balancing the growth of outreach and sustainability.

Over the last three years Mfi’s have been preoccupied in transitioning into Deposit taking Institution with only three securing the Central Bank License whereas three starting directly as Mfis’. Faulu Kenya, Kenya Women Trust Fund and SMEP have transitioned from microfinance Institutions to Deposit Taking Microfinance institutions whereas Rafiki, Remu and Uwezo has been registered from on set as DTMs.
1.2 Research problem

Strategic change is about trying to achieve the overall organization effectiveness in delivery of its mandate as stipulated in its vision. Change is the only constant in today’s life. It is simply a transition from one state to another with focus on being different. It involves fundamental changes in the business of the organization and its future direction. Change in organizations is usually as a result of either internal or external environmental factors that interfere with the attainment of the organizations vision and goals. The change focuses on significant alteration in the strategy, process, systems, procedures and organization culture. Managing strategic change is not an easy task as Mabey and Mayon-White (1993) identified three main problem areas that change agents has to focus on for a meaningful and successful change to be implemented. These areas are namely the resistance to change, the control and power. However, there is not right formula for change management, but, Balogan and Hailey, (1999) highlighted a number of important contextual features that need to be taken into account in designing change programs.

Some of the features to take into account include the scope, institutional cultures, the diversity of experiences within the institution, the preparedness to manage change throughout the different levels in the organization. Various studies have been done on the strategic change management (Muturi 2006, Mbogo 2003, Isaboke 2001, Kandie 2001, Gombe 2011, Gichohi 2011). These studies have brought to light the challenges and responses of some Kenyan organizations to management of strategic change.
However little has been studied on the DTMs in Kenya thus a study of management of strategic change in the Kenyan DTMs, offers a suitable avenue of understanding the change management in high breed of traditionally known banks and the Microfinance institutions. Thus, this study seeks to address the questions how is change being managed in Kenyan DTMs?

1.3 Research objectives

The objectives of the research are;

i. Establish the reason for transition by the DTMs

ii. Determine the change management practices adopted by the DTMs

iii. Establish the challenges in management of strategic change in DTMs

1.4 Value of the study

Managers of the DTMs will be in a better position to understand how well to manage future changes with those desirous of transforming into DTMs knowing how well to manage the transition. Best practices to managing transition shall be eluded indicating how best to manage them making this study helpful to DTMs.

This study will not only add to the existing literature in the field of strategic management but also helpful to regulators in revising or coming up with DTMs registrations.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter examines recent and historically significant research studies, company data and or industry reports that will act as a basis of this study emphasizing the important conclusions and results of other studies.

2.2 Concept of strategy

There is no one universal definition of strategy. It is a concept that embraces all the keys aspects and activities of the organization. There are as many definitions as there are strategic scholars. According to Johnson and Scholes (2003), strategy is the direction and scope of an organization over the long term. This gives an organization a competitive advantage through its configuration of resources within a changing environment to fulfill stakeholder expectations. According to Porter (1998), strategy is basically about competition and the means by which an organization tries to gain competitive advantage. He further states that competitive strategy is a broad formula for how a business is going to compete, what goals should be pursued and what policies will be needed to carry out these goals.

Mintzberg (1994) sees strategy as a plan, a ploy, a pattern, a position and a perspective. According to Hill and Jones (2001), strategy is an action a company takes to attain one or more of its goals. Precisely; it’s an action that a company takes to attain superior performance.
To Pearce and Robinson (2003) strategy reflects a company’s awareness of how, when, and where it should compete against who and what purpose. Strategy can also be said to be the way an organization responds to changes in the environment.

It is the game plan that a firm has in order to acquire a competitive edge in the market arena. An organization success is dependent on how well it is able to predict and respond to changes in the environment and the requirements of the stakeholders.

Those organizations that are unable to accommodate such changes may well lose a large share the market and the worst scenario may be forced out of business (Johnson and Scholes, 2003). The further noted that strategy has characteristics associated with it. It is concerned with the long term direction and way forward for an organization, helps gain competitive edge for the firm, helps define the scope of an organizations activities and it is a process of matching the resources and activities of an organization in the environment in which it operates. They called this as the strategic fit where business opportunities in the environment are identified and matched with the organization resources and competencies to take advantage.

Quinn (1991) defines strategy as the pattern or plan that integrates an organization’s major goals, policies and action sequences into cohesive whole. According to Pearce II and Robison (1991), by use of strategy, managers are able to evaluate their large scale future oriented plans for interacting with the competitive environment and achieve company’s objectives.
This means, strategy reflects a company’s awareness of how, when and where it should compete; against whom and for what purpose it should compete.

A well formulated strategy therefore, helps to marshal and allocate an organization resources into viable ventures based on its relative internal competences and shortcomings, anticipated changes in the envelopment and contingent moves by its rivals. The strategy can therefore be perceived as a multidimensional concept that embraces all the critical activities of the firm, therefore giving it a sense of Unity, Direction and Purpose besides facilitating the necessary changes induced by its environment. Hax and Majluf (1996) discussed the different unified dimensions of definition of strategy as follows: firstly, strategy as a means of establishing the organizational purpose in terms of its long term objectives. Secondly, strategy has a dimension of defining the competitive domain of the firm. This means it acts as the basic force that defines the businesses the firm is in or intends to be in.

Another dimension of the strategy is that it acts as a response to external opportunities and threats and internal strengths and weakness in order to achieve a long term sustainable advantage. It therefore facilitates a viable match between the organizations internal capabilities and their external environment.

The third dimension of strategy is that strategy is viewed to define the distinctive nature of tasks among corporate business and functional strategy units.

Since the three dimensions carry different managerial responsibilities, strategy helps to demarcate these roles.
Hax and Majluf (1991) noted that strategy has a dimension of being coherent unifying and integrative pattern of decision. This is because strategy helps to develop plans that assure that the basic objectives (vision) of the overall organization are achieved. In addition, strategy has dimension of defining the economic and non-economic contribution intended for the stakeholders. Hax and Majluf (1991) discussed the 4th dimension of strategy as an expression of strategic intent. This is meant to stretch the organization since it envisions a desired leadership position and establishes the criteria an organization will use to chart its progress. Lastly the concept of strategy envisions developing core competences of an organizations and investing in tangible and intangible resources to develop capabilities that will guarantee sustainable advantage. The concept of strategy therefore embraces the overall purposes of an organization.

Quinn (1991) summarized that; for any strategy to be considered effective, it must have clear and decisive objectives, must maintain initiative and commitment and must concentrate superior power to the best critical dimension in comparison to the rivals. The effective strategies must also be flexible to ensure easy planned maneuvering and reposition to use minimum resources besides being under a well committed and coordinated leadership.

2.3 Concept of Strategic Change

Strategic change is when organization mission and purpose or overall priorities and goals are substantially shifted to reflect new emphasis or direction (Gioia, Thomas, Clark and Chittipeddi (1994)).
Barnett and Carroll (1999) described organization change to involve the transformation of the organization between two points in time. The starting point in strategic change management is the conceptualization of the organization current state which calls for an in depth understanding of the organization competitive position, a thorough understanding of internal context and the need for change.

The vision of the future state is then articulated, and when in place, the process of transforming the organization from the current to the desired future state can commence, Balogun and Hailey (2008).

Cummings and Worley (2009) defined strategic change plan as a comprehensive program that moves the organization from its current strategy to the desired future strategic orientation and elaborates the types, magnitude and timetable of activities envisaged in the change process. This plan estimates the costs to be incurred and specifies the implementation schedule and suggests the cultural orientation that will lead to its successful implementation.

There are three inter linked elements in the change process which include objectives and the desired outcomes of change, planning the change and the people involved in the change process, Burnes (1996). The need for the type of change must be triggered by the company’s vision which may indicate need for improved performance.

According to Ulrich (1997), a primary difference between organization that succeed and those that fail is the ability to respond to the pace of change.
Organization change is about making alternatives to the organization purpose, culture, structure and processes in response to seen or anticipated changes in the environment.

Strategic management of change is all about identifying and embedding in the organization those changes that will ensure the long term survival in the organization. It aims at coping with both environment in which the organization operates and constraints, challenges and threats it faces, thus ensuring that the organization and its environment remain in harmony creating conditions for growth and prosperity ,Burnes (2009).

2.4 Management of Strategic Change

Management of strategic change is therefore the set of managerial decisions actions, priorities, monitoring and control that are put in place to ensure long run performance of an organization and achievement of corporate structures and goals.

Successful strategic change management process depends largely on the context in which change is taking place, the time which completion is needed, the scope or degree of change, organization resources, diversity of staff groups and division in organizations’ managerial and personal capabilities to implement change, readiness of work force to change and power that change leaders to inspire change all play a crucial role in change management of strategic process (Johnson and Scholes 2002)

The discussion by Eisentat and Beer (1990) referred to stakeholders’ outcome as the adequate level of the organization to meet the needs of its stakeholders, customers, employees and investors.
Customer outcomes is therefore the ability to meet customers expectation; employees outcomes is the overall employee satisfaction which is indicated by the firms’ ability to attract and keep employees while investors outcome is the ability of the firm to offer returns on investment which are defined financially.

The scholars noted strategic tasks as the things that need to be done in a business to create or sustain effectiveness and efficiency in the market place. The strategic tasks should be clear and shared across the business. The area of focus is determined by the top management team and should be effectively communicated to the rest of the organization. The strategic tasks therefore define the strategic direction of an institution and thus a critical factor of change.

Eisentat and Beer (1990) described organization capabilities as the appropriate levels of coordination or team works among individuals and group which are critical to accomplish a given strategic task. In addition it helps to define whether the organization has the necessary technical and managerial competencies to accomplish task and lastly, it analysis the level of commitment to accomplish the strategic task. Coordination, competencies and commitment are fundamental aspects of organization capability factor for an effective’s strategic change. If any of the three (3) lacks then there must failure of strategic change.
The fourth capability highlighted by these scholars was organizational levels which were used to describe what the manager has to do when confronted with a deficit in commitment, coordination and competencies. In their view, the organization level is the role, ability, competencies and skills of the strategic change managers or agent. Their responsibilities entails: analysis the effectiveness of formal organization specification of individual roles, responsibilities and relationships and the degree of integration among units of the organization. This means, they determine the organization of work. Secondly, they determine the appropriate influence from all functions and business units and also all organizational levels. Thirdly, the change managers ensure that individuals holding the organizational positions have appropriate skills and abilities.

This also comes along with determining the reward process of the appropriate behaviours. Fourthly, change managers/agents ensure that the information and measurement systems provide accurate and relevant data needed to monitor and manage strategic change. Lastly, the organizational level offers the right leadership which reinforces effective performance on the business strategic tasks.

Eisentat and Beer (1990) noted corporate context as a major factor of strategic change. They discussed it as the policies, procedures, culture of the larger corporation in relation to the implementation of strategic change. This is because the organizations policies, culture and procedure influences or hinders the strategy implementation. Faley and Randall (2000) noted that organizations must reconfigure operational process to implement strategies.
2.5 Drivers of Strategic Change

According to Hill and Jones (2001), often, because of drastic unexpected changes in the environment, such as the emergence of aggressive new competitors or technological breakthroughs, strategic managers need to develop new strategies and structures to raise the level of business performance. They suggest a three model approach which entails reengineering and engineering, restricting and innovation.

Reengineering is defined as the fundamental rethinking and radical redesign of the business processes to achieve dramatic improvements in critical contemporary measures of performance such as cost, quality, service and speed. Restructuring on the other hand is a tool of improving performance and has two steps. First an organization reduces its level of differentiation and integration by eliminating divisions, departments or levels in the hierarchy. Secondly an organization downsizes by reducing the number of its employees to decrease operating costs.

Bateman and Zeithaml (1990) note that change commonly occurs because the organization experiences some difficulty. In some cases this is occasioned by some problems within and or without the organization. Within the organization, pressure for change come from the management or lower level managers, outside the organization stem from the legal, competition, technological and economic environments. They note that many theories discuss the existence of the gap as the usual precipitator of major change.
Burnes (2000) asserts that change is an ever present feature of the organization life, both at operational and strategic level. Therefore there should be no doubt regarding the importance to any organization of its ability to identify where it needs to be in the future and how to manage the changes required to get there.

2.6 Challenges of Management of Strategic Change

Management of strategic change is no possible where the organization do not perceive the need for change. According to Hill and Jones (2001), even though some organization may perceive the need for change, they find it difficult to change their strategies and structures in order to adapt to the changing competitive world conditions. They describe this situation inertia.

Bateman and Zeithaml (1990) suggest, after their extensive research, that individuals, groups and organizations must be motivated to change. They warn if people perceive no performance gap or if they consider the gap unimportant, they will not have this motivation.

Since the need for change often is unpredictable, it tends to be reactive, discontinuous, ad hoc and often triggered by a situation of organization crisis (Burnes, 2004)
What faces the change agents is much more of a mess than a difficulty. There is evidence to suggest that the universal prescriptive model of change management is inadequate to describe the diversity of approaches actually used by organizations, (Dunphy and Stace, 1993)

Tichy (1993) acknowledges the frustrations managers feel when their organizations do not respond to elaborately analyzed plans, where there is a lack of interaction between decisions and actions. This mismatch of resources and strategy brings the frustrations of implementing strategic change. These resources may include human capital, expertise, equipment and finances which in most cases are insufficient for the organization implementing strategic change

2.7 Models of Managing Strategic Change

There is an ever growing generic literature emphasizing the importance of change and suggesting ways to approach it, yet very little empirical evidence has been provided in support of the different theories and approaches suggested (Guimaras and Armstrong, 1998). Senior (2000) identified three categories of change as a structure with which to look other main theories and approaches.

These three categories have been identified as change characterized by the rate of occurrence; by scale and by how it comes about. For this discussion, the emphasis is on the change that is characterized by how it comes about. When change is characterized by how it comes about, there are several different approaches; however, the literature is dominated by planned and emergent change (Bamford &Forrester, 2003).
Planned change view organization as a change process of moving from one fixed state to another through a series of pre planned steps. Emergent change approach emerged in 1980s.

Emergent change approach views change as a continuous open ended and unpredictable of process aligning and realigning the organization to its changing environment.

According to Postman (1992), the notion of implementing planned reforms to reorder the human and technological dimensions of the organization has been in existence since the conception of the earliest armies and bureaucracies predating Christian times. Kurt Lewin, Rensis, Likert and other US based figures have in recent times popularized the idea of planned interventions to bring about the changes in individual behaviours, team and organizational performance.

In the 1980s and 1990s the dominant approaches to planned change premised on the assumption that structures, processes, technology and human skills, capabilities and knowledge can be configured to support and or optimize the achievement of identified strategic goals. These include the total quality management and the various forms of strategic IT interventions including e-commerce systems (Stace and Dunphy, 2001; Wilkinson, 1998; Burnes, 1996).

The structural approach is commonly used in implementing the total quality management which deals initially and diversely with the systems barriers.
Through this approach the management team puts in place a steering committee, which then designates a design team. This team assesses the company culture systems and environment and develops recommendations for the steering committee. This approach is also referred to as organizational design and the social technical approach.

This approach helps companies to enjoy capability of dealing with major issues upfront rather than avoiding them. They are also able to change aspects of the company that has critical effect on productivity while demonstrating the seriousness of the management of strategic change.
CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

The study was a descriptive survey. Descriptive survey was preferred for it is used to obtain information concerning current status of a phenomena and purposes of these methods is to describe what exists with respect to situational variable i.e. it looks at relationship between and among variables (Mugenda and Mugenda 2003) Therefore this section identifies the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, Population and sampling procedure, data collection and data analysis.

3.2 Research design

The study adopted a descriptive research design meant to study the strategic management approaches being adopted by transitioned Deposit Taking micro-finance institutions in Kenya. Descriptive study was preferred for it is used to obtain information concerning current status of a phenomena and purposes of these methods is to describe what exists with respect to situational variables i.e. it looks at relationship between and among variables (Mugenda and Mugenda 2003)

3.3 Population

There are six licensed Deposit Taking Microfinance institutions in Kenya as at July 31st 2012 three of which were licensed directly at inception (Remu, Uwezo and Rafiki) whereas three have transitioned from Microfinance institutions into Deposit taking Microfinance institution (Faulu Kenya, KWFT and SMEP)
The list of the DTMs was obtained from the Central bank of Kenya annual report on MFI in Kenya and AMFI. Since the entire population of MFIs to be studied was sufficiently small, the researcher used the census method.

3.4 Sample design

The study was carried out through census survey because of the cross-sectional nature of the data to be collected. A census survey involves collection of data from all members of the population. The method enhanced confidence in the results of the analysis of data as regards to the entire population.

A stratified random sampling technique was used. This was meant to help the researcher achieve desired representation from various sub groups in the population. The first stratum contained of the management and a representative sample of twenty one managers was used. It involved giving a number to every member of the accessible population and then placing the number in a container and then picking any number at random. The subject corresponding to the number picked was included in the sample.

3.5 Data collection

Data collection utilized qualitative research; Kothari (2004). Qualitative data refers to all non-numeric data or data that have not been quantified and can be a product of all research strategies (Saundar, Lewis and Thorn Hill 2007).

This can range from a short list of responses to more complex data such as transcripts of in depth interviews or entire policy document. They also contend that the analysis of qualitative data is so diverse that there is no standardized approach.
The Researcher collected both primary and secondary data. The primary data was collected through in-depth interviews using a structured questionnaire. The researcher administered the questionnaire to the target group who included Heads of departments or section heads who were involved in planning committees a total of three from each DTM. Advance notification to respondents by phone of the study and its intent was carried out including follow up of the non-respondents. Respondents were briefed and informed that participation is voluntary and anonymity will be observed and encouraged which resulted to a 100% feedback coupled by the fact that all resided at the head offices where 21 members were interviewed. Telephone interviews were conducted for clarification.

3.6 Data analysis

The process of data analysis involved several stages. Completed questionnaire were edited for completeness and consistency and coded for analysis. The data was analyzed using content analysis. Content analysis is defined as a technique of making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate to trends. It provided the researcher with qualitative picture of the respondent’s concerns, ideas, attitudes, and feelings.

Content analysis generated qualitative report which was presented in a continuous prose and expected to provide real evidence that the change processes have taken root in the DTM and that an evaluation was done to show the impact of change, how it is being managed and the challenges there of. This type of analysis does not limit the respondents’ answers and there data collected shed more light on how change is being managed.
CHAPTER 4: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents an analysis of the data that was collected as the data in the raw form convey little meaning. To turn this data into information it needs to be processed. Content analysis was used in this study to allow for an in depth understanding of issues. This involved establishing related trends from the responses of the interviewees.

Previously MFIs have been operating only credit line of business and due to increased competition; the same clients have turned to other Banks who have started operating a microfinance wing as they consider them a one stop shop for a variety of credit, savings product and other products not available in the MFIs. Banks in the likes of Equity, Family bank, K-rep bank, KCB, Cooperative bank among other had turned to the said MFI clients with a comprehensive product offering. This need brought a major re-organization where existing MFIs transitioned into deposit taking microfinance institutions where other started as such which are regulated by the central bank and allowed to mobilize for savings from the public.

In order to cope with the changing environment the MFIs had to change to their systems, increase efficiency and effectiveness of their service delivery, change their organization structures to be compliant with laid requirements. As a major requirement by central bank the issue of governance and ownership had to be dealt with. Most MFIs were started as NGOs which had converted into private companies with majority shareholding held by individuals or corporate mostly international.
4.2 Drivers of change

The financial industry has been evolving and to remain relevant and competitive in the market MFIs had to adjust and realign their businesses. The respondent felt that the external forces prompting the transitions were due to the MFI act of 2008, customer needs, competition, MIS evolution, donors and growth.

Table 4.2 Departmental representation

<table>
<thead>
<tr>
<th>Department</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>6</td>
<td>29%</td>
</tr>
<tr>
<td>Human resources</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Marketing</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>Audit</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>Finance</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>ICT</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>Legal</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The analysis above shows that 29% of the respondents came from operations from whence major changes took place thus their feedback very critical the research.
The MFI act of 2008 played a pivotal role in the transition as it lays the framework under which MFIs could operate being a statutory requirement giving the foundation under which MFIs could be allowed to operate as DTMs.

Respondents identified the desire to be compliant in gearing towards deposit mobilization across board as the greatest driver to change with the MFIs looking to expand their footprint, market share and win new customers. It was also envisioned that this compliance would move the MFIs to another culture of high performance.

84% of the respondent felt the MFIs were insufficient in their product offering making the customers to look for alternative sources of the desired products. Telephone interviews clarified the continued desire for customer to access all financial products under one roof thus contributing greatly to the transition.
MFIs are only allowed to offer credit only line of business whereas the customers were yearning for saving products as they would for credit and are given cheques to go and cash in other banks. Moreover few loan products had left the clients with no option other than shopping around in other financial institution leading to clients being multi funded a great catalyst to default.

Mushrooming of many MFIs in the industry and the setting up of MFI departments in the main stream banks also led to the transition by the MFIs to compete equitably in the market. The unregulated environment attracted small and informal MFIs that competed for the same clientele with the mainstream banks casting their nets wider to reach to the BOPs. The net effect of this is amazing as the MFIs boast of having a membership of about five million which on the other hand represent 1.7% in terms of financial services usage meaning the customers are duplicated among the MFIs as published in a periodical by FSD Kenya, (2010)

The evolution of information technology has played a significant role in the way business is carried out. To enhance efficiency of processes some of these processes had to be automated. Majority of the MFIs processes have been manual, slow and inefficient owing to the IT soft ware in place limiting provision of desired services. The general uptake of technology and its integration in business process left no room for MFIs to take similar direction.
Competition has been stiff with mainstream banks stooping low for the same market niche putting the MFIs in a greater headache not only for growth but also profitability and sustainability. To compete adequately the MFIs are left with limited options but to up their game to compete favorably in the financial market.

Donors have also influenced the transition as noted by some respondent who felt though not directly but through indirect influence the donors have been advocates for the change.

Others respondent felt the management also wanted to feel equals with others thus their quest to join the bandwagon.

**Table 4.3 Change Agents**

<table>
<thead>
<tr>
<th>Change Agent</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI Act</td>
<td>36</td>
</tr>
<tr>
<td>Need for growth</td>
<td>21</td>
</tr>
<tr>
<td>Customer needs</td>
<td>18</td>
</tr>
<tr>
<td>Competition</td>
<td>12</td>
</tr>
<tr>
<td>MIS</td>
<td>7</td>
</tr>
<tr>
<td>Donors</td>
<td>3</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
</tr>
</tbody>
</table>
4.3 Management of strategic change measures adopted by the DTMs

The change initiative to restructure and reorganize the DTMs was started by the top management of the respective MFIs. Though the situational analysis occurred nearly at the same time in the 2009, individual MFIs undertook the transition at different intervals. Faulu Kenya deposit taking MFI was the first to be licensed by central bank on 21.05.2009. KWFT followed in 31.03.2010 and SMEP was licensed on 14.12.2010. However, the other three started as DTM (Remu 2010, Rafiki 2011 and Uwezo 2010).

Interviews conducted indicate the whole process was well communicated before hand and the staffs for the respective DTMs were taken through change management training with the transition milestone being clearly communicated to the staff. This training was departmental, regional or corporate to ensure all were on board and ease the resistance. The researcher found out that change champions were chosen from across the departments and were used to communicate the various milestones.

The new vacancies were advertised openly for the new roles created which were filled competitively with staff being given the first priority though some of the vacancies demanded prior experience in banking locking out the staff.

Employees had to be mapped to the new organization and these occasioned several workshops/ training and follow up meeting with individual department who were impacted while most employees did not experience significant changes as the scope of the job description did not change as a result of the re-organization especially for those in credit where only processes were changed.
Everyone in the company had to change their mindset and behavior if the DTMs were to be competitive and profitable in the current environment. This was achieved through culture realignment which was effected through revision of the mission and vision to be in line with the new business. This was reinforced through team building activities, departmental meetings, workshops company bulletins, memos etc.

Internal process were re-engrailed and realigned to increase efficiency in service delivery with adoption of current core banking software to accommodate new products and especially saving products which was purely a new line of business.

The new business line to cater for deposit taking stood out in the responses given by the respondents representing the strongest measure adopted by the DTMs to ensure the survival. This was largely supported by the recruitment of lining of experienced staffs that had worked in the commercial banks and brought in their experience especially to run the new business line,

There was a significant change in the organization structure which were classified to incorporate the new business and also due to the regulatory requirements given by the central bank. Risk and compliance, audit, security and administration were introduced while HR and marketing were expanded and upgraded.

In all the transitioned DTMs they dropped their former ICT system and acquired a new one which was in resemblance to banking system to accommodate the business line (savings) besides enhancing efficiency.
The upgraded HR (leaving and development) department enhanced the periodic meetings as leaving time to fully embrace the change with increased seminars and workshops all aimed at enhancing the capacity of the staff to equal to the task in the new competitive environment.

Marketing department that lonely existed as one main department was upgraded and empowered. The respondents acknowledge the massive campaigns that majority DTM$s adopted especially Faulu, KWFT and SMEP that are famously known as road shows accompanied by mugiithi (caravan) to lure and woo customers to their new products that are not necessarily new in the market but in a wave of creating a niche for them.

Communication was reported to have been greatly enhanced with introduction of strategic planning meetings, periodic review meetings.
### Table 4.3 Measures adopted to manage change

<table>
<thead>
<tr>
<th>Measure</th>
<th>Respondent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New business lines (products)</td>
<td>46</td>
</tr>
<tr>
<td>New staff (with banking experience)</td>
<td>15</td>
</tr>
<tr>
<td>Structural change</td>
<td>10</td>
</tr>
<tr>
<td>New IMIS system</td>
<td>13</td>
</tr>
<tr>
<td>CBK reports</td>
<td>8</td>
</tr>
<tr>
<td>Marketing</td>
<td>5</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
</tr>
</tbody>
</table>

### 4.4 Challenges in managing strategic change

Respondents were asked to identify challenges in managing strategic change in the DTMs with a 100% identifying resistance to change as the most significant challenges embracing the change process due to job insecurity. Many staff felt insecure on the possibility of them losing their jobs to more qualified and experienced staff form the commercial banks. 60% of the staff interviewed said experience from other organizations that had undertaken such transition experienced a retrenchment phase where staffs with little or no experience find themselves being relieved of their duties.
Table 4.4 Challenges in Managing Change

<table>
<thead>
<tr>
<th>Challenge</th>
<th>No. of respondents (out of 21)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resistance to change</td>
<td>21</td>
</tr>
<tr>
<td>Job insecurity</td>
<td>12</td>
</tr>
<tr>
<td>New IMIS system</td>
<td>8</td>
</tr>
<tr>
<td>Product development</td>
<td>11</td>
</tr>
<tr>
<td>Cost</td>
<td>11</td>
</tr>
<tr>
<td>New Job descriptions</td>
<td>8</td>
</tr>
</tbody>
</table>

The new systems adopted by the DTMs were not easily embraced as any teething problem was taken with a lot of skepticism by the users who longed for the old ICT systems making the process of adaptation unnecessarily longer with 40% feeling the older systems were faster. Some of the ICT systems did not have local support making it even harder to embrace like the T24 system which is being used by two of transitioned DTMs.

The general expectations of the customers was they were to experience variety in the product offering, 50% of the respondent felt the process of product development was unnecessarily slow. This was not possible as the DTMs took longer to roll out the new products which lost the clients momentum and by the time of introduction their
momentum was low. This came about with the new processes that had to be mapped in the new ICT system.

The transition was a heavy investment especially in terms of a expanded workforce which was highly paid, expensive robust banking ICT systems, trainings and workshops and increased marketing especially through road shows. 50% of the respondents viewed financial constrain especially in the opening of new banking halls under the regulation and approval of Central Bank of Kenya

40% of those interviewed felt insecure with the new structure that was viewed to be top heavy with numerous positions created and others expanded like marketing and HR and the introduction of Risk and elaborate Audit department. Those staff affected felt insecure with the movement especially to new departments

4.5 Overcoming the challenges to change

The researcher sought to know how the DTMs would maintain their relevance in the market with 83% of the respondent stressing on the need of training and retraining the staff on the new processes, system, culture among other issues. This can be maintained at branch, regional or corporate level

61% of those interviewed felt it would not be business as usual for the marketing department as it has to engage to a higher gear in an attempt to penetrate the highly competitive financial market and compete favorably with already established commercial banks which have turned to the same niche market. This would be
achieved through expansion and empowerment of the department by allocating resources both in terms of human resource and financial resource.

Integration of ICT systems will help smoothen most of the operational processes making them faster, efficient and effective smoothening the adoption process by the staff. This would entail also the integration of some cost effective mobile banking facilities like Mpesa. 72% of the respondents felt such kind of technology will not only be cost effective to the company but also to the clients hence an investment in creation of customer loyalty.

4.6 Discussion of Findings

Strategic change is the movement of a company from its present state toward some desired future state to increase its competitive advantage (Hill and Jones, 2001). The MFI’s recognizes the complexity and dynamism of their business environment and has undertaken the transition through re-organization in a bid to adjust and realign their businesses to be competitive, to expand their geographical reach, and increase their profitability and sustainability while meeting their customers’ needs and expectations more effectively and efficiently. These results pointed out the existence of a gap which is often a source of strategic change. Filling this gap meant moving to a different state thus the transition into Deposit Taking Microfinance Institutions.
There were timelines, budgets and change champions and goals set which is in total agreement with Holland’s (2000) definition of strategic change where he defines it as the use of systematic methods to ensure that and organization change can be guided in planned direction, conducted in a cost effective manner and completed within the targeted time frame and with desired results, (Holland, 2000).

Most of the changes in the MFIs were instituted by the top management who either directly identified the gaps or through the staff. This agrees with Bateman and Zeithaml (1990) who view that change commonly occurs because the organization experiences some difficulty which is often a gap to be filled. This also supports the findings of Kiche (2011), Mwea (2010) that strategic changes in organizations are crafted by top management and then communicated to the rest of the organization.

The vision of this re-organization was precise and constantly communicated through memos, periodical communications, staff meetings and trainings. The milestones identified and executed were all in line with identified vision which was constantly communicated. This supports studies by Kotter (1996) which suggested that of the remaining elements that are always found in successful transformations, none is more important than a sensible vision. During the research it was evident how the intranet/emails played a critical role in communicating every step of change of this transition, the milestones achieved and future steps to be taken in a very simple manner. This supports the studies of Kanter et al (1992) and Kotter (1996) who identifies communication as an important step towards successful change management efforts.
Considering the new products, processes and structures necessitating for new job descriptions, this would facilitate continuous learning in order to serve the customers mere efficiently and effectively. This corroborates studies conducted by Dumphy and Stace (1993), which perceive change as a process of learning.

The fact that the researcher identifies a collection of measures to the management of strategic change provides further evidence to the work of Guimaraes and Armstrong (1998) who suggested that while there is an ever growing literature emphasizing the importance of change and suggesting ways to approach, very little evidence has been provided in support of the different theories and approaches suggested. According to By (2005) there are no universal rules when it comes to leading and managing change.

Kiche (2011) and Mwea (2010) also points out the existence of more than one approach to management of strategic change. In their studies they identify both emergent and planned approaches to the management of change.
CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 summary

Successful organization effectively manage change continuously adapting this bureaucracies strategies system products and cultures to survive the shocks and prosper the forces that decimate competition (waterman 1987) the transformation process from one entity to another. Most of the changes in the DTMs have been mainly planned rather than emergent. There has been a common pointer in the corporate strategies for the institutions to prepare for eventual transformation into banking institutions without shifting their missions and visions while at the same time the continuous rapid changes in the environment has forced the organizations to keep up with the changing demand and needs of the customers.

There was a serious commitment by the management to the success of the transition which was executed through effective communication and training. This timely dissemination of information helped to speed up acceptance of the change by the staff as most of their fears were clarified in good time. This reinforces the empirical studies by among others Burnes (1996), Guimaraes and Armstrong (1998), Kanter et al (1992), Kotter (1996) and Luecke (2000)
The management of strategic change measures adopted by the DTMs identified in this study include introduction of new business line (saving), recruitment of new staffs with banking experience and training existing ones, change of organ gram (structure) to incorporate new departments like risk and expansions of departments like marketing and HR, acquisition of robust banking aggressive marketing through the popular mugiithi (road shows) to woo customers.

These findings of this research revealed resistance to change due to fear of job insecurity among the staff or the main challenge lost of implementation market perception and CBK regulation and other challenges.

The study revealed considerable efforts done by the DTMs in training the staff through workshop seminars and periodic review meetings as one of the ways of embracing the challenges.

The study revealed considerable efforts done by the DTMs in training the staff through workshops, seminars and periodic review meetings as one of the ways of combating the challenges. The transition process has been packaged into milestones with specific time lines that are included in the strategic plans making the budgeting and optimal utilization of resources possible without undue strain. However some of the repackaged projects/ milestones failed to match the aspirations in the new strategic plan instead increased the costs of operations thus becoming a major challenge.
Objectives of the study were to examine the reason for transition, management of strategic change and the challenges associated with it were adequately addressed.

5.2 Conclusions

Strategic management is a process of decisions and actions that result in the formulation and implementation of long term designed plans to achieve organizational objectives. These changes have to be vision driven and led from the top. Leading change has to begin with diagnosing the situation and then deciding how to manage it.

The DTMs have embraced management of strategic change measures to streamline their operations. The DTMs made objectives real and relevant by making top management the agents for change to give strategic direction and ownership

Retraining, coaching and mentoring staffs by DTMs have helped in minimizing the resistance to change. While involvement of the customers in the process by designing customer focused products have helped the customers to transition with the organizations coupled with intensive market outreach that has resulted expansion/ increase in market share. Structural realignment has helped in managing the envisioned change with the new robust system helping in increasing efficiency and effectiveness.
To maintain the new standards acquired, it is of paramount importance to maintain a very high standard of customer relations so as to attract and retain the customers in the highly competitive market.

Staffs play a key role in the change process and a lot of investment needs to be put for them to ensure high level of motivation as the MFI industry is both labor and cost intensive. A motivated workforce will not only be good in customer relations but also in increasing the organization credibility.

5.3 Suggestion for further research

Owing to the fact that out the 51 MFIs in Kenya only six are licensed as DTMs with only three have undergone a transition from an MFI to a DTM and the rest three registered from onset within a time frame of about three years; little seems to have been documented on the DTMs to ascertain the success gained from the transition thus other studies will be appropriate when more MFIs come on board and are able to survive their strategic plans of at least five years.
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APPENDIX 1

QUESTIONNAIRE

1. What was the main cause of transition that took place in (name of the MFI)? List in order of priority.

2. When did the transition officially start?

3. What were the main objectives of the transitions?

4. Kindly answer the following few questions
   4.1 Was there a clear communication?
   4.2 Did the company establish a team to spearhead the transition?
   4.3 If yes what was the composition of the team?
   4.4 Were there clear milestones set to be achieved at specific times?
   4.5 Did you find the information disseminated useful to you?
   4.6 List a priority the changes in the DTM's in terms of the significance to you

5. What theme a chronological flow of activities / events during transition?

6. How long did the process of transition take?

7. Was the transition achieved within the set timeframe?

8. What was your role in the time of transition?

9. Were there challenges encountered during the transition?

10. Do you think the objectives of the transition will be encountered?

11. Do you think there are things you could do differently given another chance?

   11.1 Why do you think they ought to have been done differently?

12. In your own words what was the vision of the transition?