

Institutional Change Management Challenges Faced by Microfinance Institutions in Transforming into Regulated Deposit Taking Financial Institutions in Kenya

*George Koome Rukaria¹, Elegwa Mukulu¹, Maurice Sakwa²

¹Department of Entrepreneurship and Procurement, School of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology, Kenya, ²Department of Social Sciences, School of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology, Kenya

*rukariag@yahoo.com

Abstract

The objectives of this study were to establish the extent to which institutional change management is a challenge in the transformation of microfinance institutions into regulated deposit taking institutions in Kenya and to make recommendations for successful transformation. The target population was 48 member institutions of AMFI. Using purposive sampling, the study selected 25 MFIs from which 100 respondents were selected using simple random sampling. Data was first explored for the underlying factor structure through factor analysis before descriptive and inferential statistical analyses. The study established a significant association between institutional change management and successful MFI transformation in Kenya and concluded that institutional change management was a significant challenge in the transformation of microfinance institutions. The study recommends that transforming MFIs should prepare well so as to overcome institutional change management challenges. It recommends further research to determine the impact of MFI transformation on overall financial inclusion in Kenya.

Keywords: *Microfinance, Microfinance institution, Transformation, Institutional change, Change Management, Deposit-taking microfinance, MFI Regulation, MFI Supervision*

1.0 INTRODUCTION

1.1 Background to the Study

The existence of a strong correlation between access to financial services and economic development is widely acknowledged (Christen, Rosenberg, & Jayadeva, 2004). This is because increasing access to financial services results in employment generation and economic growth as well as contributing to human development. Despite this, it is estimated that about three billion working-age people in the world still lack access to a broad range of financial products and services on a sustainable basis (Christen, Rosenberg, & Jayadeva, 2004).

The formal banking sector serves less than 20% of the population in developing countries (Robinson, 2001). The rest of the population has historically not had access to formal financial services (Chiumya, 2006). These are typically low-income households. In Kenya, the limited access to financial services has over the years been cited as one of the major constraints inhibiting the growth of the Micro and Small Enterprises (MSEs) sector (Central Bureau of Statistics, International Centre for Economic Growth, & K-Rep Holdings, 1999; Republic of Kenya, 2005). Yet, the MSE sector makes a significant

contribution to the economic development of the country, amounting to up to 18.4% of the country's Gross Domestic Product (Republic of Kenya, 1992; 2005; Gichira, 2005).

The problem of limited access to credit has further been shown to be more as a result of supply-side constraints (Atieno, 2001). To address the problem, Microfinance Institutions (MFIs) emerged and have been testing and developing a practical approach since the 1970s to serve those historically excluded from accessing financial services from the formal banking sector. One popular view has been that major increases in microfinance outreach needs to come from banks (Vogel, Gomez, Fitzgerald & IMCC, 1999). This is based on the comparison of size of the typical bank and the typical microfinance institution and the fact that most of the largest microlenders are banks (e.g. Grameen, BRI, and Bancosol). Just like has happened globally, Kenya has experienced a rapid growth of the microfinance sector since the 1980s. However, the MFIs operated without a proper legal and regulatory framework (Atieno, 2001; Republic of Kenya, 2005), which greatly hampered their capacity grow (KIPPRA, 2001).

The enactment of the Microfinance Act 2006 (Republic of Kenya, 2006; 2008; CBK, 2008) provided the environment for the second round of transformations. From 2006, MFIs that wished to do so started seeking to transform with a regulatory framework specific for MFIs in place. This statute provided for the regulation and supervision of deposit-taking microfinance institutions (DTMs) in Kenya. Its passage provided transforming MFIs with a second option of becoming regulated deposit-taking institutions in addition to the one already tried by K-Rep that is, converting into a commercial bank. This was expected to spur rapid growth in the microfinance sector as DTMs would be allowed, lawfully, to mobilize deposits from the public and use the same funds for on-lending.

1.2 Statement of the Problem

According to a study on financial access (called FinAccess), 19% of the Kenyan adult population uses financial services from the formal financial institutions which are regulated by the monetary authority like banks and building societies and post office savings bank (Arora & Ferrand, 2007). Alternative formal financial institutions which are not regulated by the central bank, like Savings and Credit Cooperatives (SACCOs) and microfinance institutions (MFIs), reach 8% of the adult population. This means that only 27% of the adult population access financial services from banks and other formal regulated non-bank financial institutions. Another 35% of the adult population uses financial services from informal sources like Rotating Savings and Credit Associations (ROSCAs) and Accumulated Savings and Credit Associations (ASCAs). The other 38% of adult Kenyans do not use financial services from any source.

Overall, those who access financial services from informal sources and those who are not served by any source total to 73% of the adult population. These are excluded from the formal sources and are said to be "unbanked". According to Arora and Ferrand (2007), this implies that Kenya faces a great challenge in her efforts at developing an inclusive financial system. They further observe that those levels of access compare favourably to Kenya's regional neighbours, yet, in the context of the Vision 2030, Kenya seeks to benchmark its economic performance either with rapidly growing countries (such as Vietnam) or middle-income countries (like South Africa, Namibia or Thailand) which have

considerably higher levels of access. They conclude that Kenya would have to raise the formal access to 50% in order to achieve those benchmarks by 2030.

In addressing the problem of access to finance by reaching large numbers of people, the global trend is to move microfinance into institutions that are licensed and supervised by a country's financial authorities (Hishigsuren, 2006). For instance, by March 2006, about 43 non-governmental organization (NGO) microfinance institutions (MFIs) were transformed worldwide (Hishigsuren, 2006). One of the models being used to achieve that significant outreach is the transformation of microfinance organizations into regulated deposit-taking microfinance institutions (DTMs).

Transformation experience from other countries like Bolivia, Cambodia, India, Mongolia, Nepal, Pakistan, Philippines, Uganda, and Peru indicates that the process is not easy. This is because transforming microfinance institutions in those countries faced financial, management, infrastructure, legal, institutional change management and other challenges (Campion & White, 1999, Hishigsuren, 2006). While the small number of successful transformations in Kenya from 2006 to 2010 may be attributed to the existence of challenges in the transformation process, the available information is not conclusive on whether or not the transformation challenges faced in Kenya were the same as those faced in other countries. Specifically, this study sought to determine the institutional change management challenges faced in the transformation of microfinance institutions into regulated deposit taking financial institutions in Kenya.

1.3 Objectives of the Study

This study addressed the following specific objectives:

- 1) To establish the extent to which institutional change management is a significant challenge in the transformation of microfinance institutions into regulated deposit taking institutions in Kenya.
- 2) To make recommendations for successful transformation of microfinance institutions into regulated deposit taking institutions in Kenya.

1.4 Hypothesis

H₀: There is no significant association between institutional change management and successful transformation of microfinance institutions into regulated deposit taking institutions in Kenya.

2.0 LITERATURE REVIEW

2.1 Institutional Change Management as a Challenge

As much as the importance of change in organizations is appreciated, it is also important to recognize that for most people change is very difficult (Denhardt, Denhardt & Aristigueta, 2002). The introduction of change in organizations thus naturally elicits resistance from various stakeholders (Denhardt, Denhardt & Aristigueta, 2002). This is particularly serious when the new ideas appear to have the potential to challenge the existing organization. Some of the resistance might be based on emotional

and psychological reactions while others might be based on objective reasoning. Whatever the case, resistance to change can derail the whole transformation process and, therefore, presents challenges that the management must deal with.

Transformation necessitates the development of an appropriate physical and operational infrastructure. Although this is sometimes done to meet legal requirements, in other cases it is based on the demands of operations (Campion & White, 1999). For instance, in order to keep the cost and risk of lending low, BancoSol retained the technology of personalized contact with the clients. This includes simple procedures and instruments tailored to suit the clients' demands. New accounting and passbook and savings software systems also need to be installed.

Since a key objective of transforming is to reach as many people as possible at minimal costs, a transforming MFI is faced with the challenge of deciding on how to make use of information and communications technology (ICT). The innovative use of information and communications technologies can reduce the transactions costs and aid in the delivery of a wide range of financial services (Ivatury, Pickens, & Siedek, 2006). These may help to make an MFI more efficient in serving poor people. The most commonly used technology channels include automated teller machines (ATMs), point of sale (POS) card readers and mobile phones to handle transactions for poor customers. Some MFIs are using new technology to serve their existing customers better while others hope to reach new clients in areas where setting up a bank branch may be too costly. The decision to adopt, install and use ICT can demand both time and other resources.

According to Campion and White (1999), a transforming institution needs to adapt its organizational structure and culture as BancoSol did. This is because the structure and culture should be able to support the methodology and operations of the new MFI. For example, before creating BancoSol, PRODEM had an informal internal culture appropriate for its lending methodology that was based on trust between it and clients. This culture encouraged innovation, commitment to the organization's mission, and recognition of individual contributions to a team effort. The management structure was simple and flat, relying heavily on interpersonal relations. The informal culture had to be changed in order to support the integration of new staff and branches. As BancoSol grew into a larger organization, it required more standard lines of authority and communication and a more businesslike approach to decision-making. Ultimately, BancoSol designed a stricter management structure, improved systems, and new chains of command.

Another aspect of infrastructure to consider is physical facilities like premises. The regulator requirements dictate the kind of premises and facilities that are within acceptable standards (Campion & White, 1999). For example in the case of Mibanco, the regulations specified the kind of walls, doors, windows, and security systems to be installed. For the case of K-Rep, there were additional issues regarding the location as the banking laws in Kenya then did not allow banks to be located in slums and remote areas for security reasons.

At the same time, as Ledgerwood (1999) asserts, transforming MFIs are often limited by a lack of funding sources because of their institutional structures. This is because most of them were initially created as semi-formal institutions (as NGOs or some form of savings and credit cooperative). MFIs thus need to think beforehand about how to deal with the likely increase in financial pressures emanating from the transformation process and rapid growth thereafter.

One option is to switch from donor funding to more expensive commercial loans and deposits. However, funds from such sources, especially commercial loans, come with a huge cost which might impact negatively on the performance of the MFI in the long-term (Campion & White, 1999). For example, Bancosol saw its cost of funds increase from 4% to 12% over the first three years (1992-1995) of its transformation. This arose from the holding back of the revenue generation capacity by the legal reserve requirements which saw the proportion of assets placed in high-return loan portfolio reduced. At the same time, as a transformed MFI grows, it starts lending out larger loan amounts, which earn a lower effective interest rate. The effect is a reduction in the overall profitability as can be seen from Bancosol, whose operating margin fell by 13%.

Raising funds from public deposits can also be challenging as seen from the case of K-Rep in Kenya (Rosengard, Rai, Dondo & Oketch, 2000). This is because whereas potential depositors may be confident about a fair return and safety of their savings, they may be apprehensive about the accessibility of their savings. This becomes an issue where a transforming MFI has had a well known policy on compulsory savings (using savings as collateral for credit) which restricts access by the saver.

Creating and / or increasing the capital base of an MFI is challenging in that a previously ownerless entity is now seeking owners (Ledgerwood, 1999). The institution needs to decide whether to pursue institutional, individual, local or foreign investors or a combination of these options. The challenge goes even further because success depends on the willingness of the potential investors (Hishigsuren, 2006). For instance, K-Rep in Kenya sought institutional investors believing them to be more transparent with a longer-term commitment. Although K-Rep begun seeking local institutional investors, banks doubted its viability due to lack of understanding of micro-finance and declined. Eventually K-Rep, with the assistance of donors, identified foreign investors. For PRODEM in Bolivia, raising equity was the most challenging aspect when creating BancoSol because commercial micro-finance was a new concept. PRODEM settled for international and local investors. On the other hand, because of the low capital requirements of Philippine rural banks, CARD did not need to attract outside investment to fulfil minimum capital requirements. The initial increase in equity, the greater opportunities created by the transformation, and rapid growth in operations have resulted in continued growth in the total equity of some transforming institutions. For example FFP CLA, Compartamos, Mibanco, and ACLEDA Bank all managed to do this.

The other key institutional change is the introduction of voluntary savings. With the introduction of voluntary savings, the MFI can no longer control the number of clients. Secondly, the institution has to expand its target market so as to include wealthier individuals and institutions in order to manage transaction costs. This calls for a strong financial performance record and reputation. This calls for qualified management and staff, excellent internal controls, a robust MIS, banking halls, adequate security, and effective cash and asset/liability management. All these measures are necessary because with voluntary savings, the MFI has the challenge of ensuring that the clients can trust it. Besides, the staffs need to learn new skills of approaching new clientele.

2.2 Successful Transformation

Transformation has been defined as the establishment of a regulated financial institution (RFI) by a nongovernmental organization (NGO), or a group of NGOs, by transferring all or part of its loan portfolio

to the RFI (Fernando, 2004). It is also defined as the process by which an NGO MFI converts into a “formalized” or regulated financial institution (RFI) (Frank, 2008).

A study by Hishigsuren (2006) shows that the process of MFI transformation has taken varying forms depending on the legal framework in a given country. For instance, it may take the form of an existing MFI converting into a RFI. It may also be in the form an existing MFI, alone or in collaboration with other organizations, establishing an RFI. Whatever the form it takes, it culminates in the application for registration as an RFI and finally being granted a license by the regulating authority to operate as such.

It is apparent from the above that several activities have to be undertaken during the process. One can also reasonably expect transforming institutions to undertake some activities even prior to, rather than concurrently with the application for a licence. Indeed, as Campion & White (1999) point out, the transformation of MFIs entails raising equity, institutional transition, and licensing. However, institutional transition, continues even after the institution is licensed. It is for this reason that Hishigsuren (2006) asserts that an MFI may experience challenges before, during and after the transformation.

An institution is considered to have transformed successfully if it manages to overcome the challenges faced before and during the process of transformation. Successful transformation, therefore, is indicated by an MFI ultimately gaining the RFI status by getting issued with a license to operate as a DTM in Kenya (CBK, 2008).

3.0 RESEARCH METHODOLOGY

3.1 Research Design

This study used the mixed methods approach, the modern approach to designing and conducting research. According to Creswell and Clark (2006), the mixed methods approach is a procedure for collecting, analyzing, and mixing both quantitative and qualitative data in a single case study or a series of studies. The approach is becoming quite common in studies across various disciplines like social, behavioural, health sciences and education.

This study used qualitative (interviewing) and quantitative methods (descriptive and regression). Qualitative research sought to describe and analyze the culture and behaviour of humans and their groups from the point of view of those being studied (Orodho & Kombo, 2002; Kombo & Tromp, 2006). In qualitative research, feelings and insights are considered important. The designs here rely on a research strategy that is flexible and interactive, such as interviewing and focus group discussions. This study thus used interviewing in order to capture the feelings and insights of the microfinance institutions. According to Kombo and Tromp (2006), the qualitative approach is applicable when the subject matter is unfamiliar and the study seeks to relate particular aspects of behaviour to the wider context. It is also applicable when meanings rather than frequencies are sought and when flexibility of approach is needed to allow for discovery of the unexpected and in-depth investigation of particular topics.

At the same time, the study used quantitative designs so as to benefit from the advantages inherent in such methods. According to Kombo and Tromp (2006), the quantitative approach relies on the principle of verifiability, that is, confirmation, proof, corroboration or substantiation. It is applicable where the researcher incorporates the statistical element designed to quantify the extent to which the target group is (or thought or believed to be) aware of, or is inclined to behave in a certain way. It is also applicable when frequencies are required to explain meanings, thus necessitating the collection of numerical data in order to explain certain phenomenon. Finally, it is useful when data analysis is mainly statistical.

3.2 Target Population, Sample and Sampling Procedures

The sampling frame was the AMFI on-line register of members as at 1st January 2013. The register had 48 member institutions (AMFI, 2013). The target population of this study, therefore, comprised of 48 MFIs.

This study used both purposive and simple random sampling to select the sample. Purposive sampling is a sampling technique that allows a researcher to use cases that have the required information in relation to the study objectives (Mugenda & Mugenda, 1999; Mutai, 2000; Kothari, 2004; Chandran, 2004; Oso & Onen, 2009). From the sampling frame, wholesale MFIs as well as non-microfinance institutions were eliminated. In this way, a total of twenty five institutions were selected. Simple random sampling was then used to select 4 respondents from each selected institution. A simple random sampling is a technique that allows the researcher to select a sample without bias from the target or accessible population (Mugenda & Mugenda, 1999; Mutai, 2000; Kothari, 2004; Chandran, 2004; Oso & Onen, 2009). In this way, a total of one hundred respondents were selected from the selected institutions.

3.3 Research Instruments and Data Collection and Analysis

This study used a questionnaire and an interview schedule. The questionnaire was used to collect quantitative data and an interview schedule to collect qualitative data (Mugenda & Mugenda, 1999; Kombo & Tromp 2006). Data entry, storage and analysis were done with the aid of Scientific Package for Social Sciences (SPSS). After data collection, all the questionnaires were coded as part of the data cleaning. A coding scheme was developed to facilitate the development of an appropriate data structure to enable its entry and storage in the computer. After all the data was entered into the computer, it was checked and corrected for any errors.

The data was first explored for the underlying factor structure among the study variables through factor analysis. Factor analysis was done using Principal Component Analysis (PCA) which helped in reducing the number of variables into fewer factors of similar characteristics. The extracted variables were then explored in terms of descriptive statistics and logistic regression.

This study undertook both descriptive and inferential statistical data analysis. Descriptive data analysis was done first and it consisted of measuring numerical values from which descriptions (such as the mean and mode) were worked out for various data items. Inferential statistical analysis was then

used to test for the existence of relationships between the variables. The study used Pearson Chi-square to establish the degree of association between categorical variables (Kombo & Tromp, 2006) and direct logistic regression to assess the impact of a number of factors (continuous independent variables) on the likelihood that they would report successful transformation (dichotomous dependent variable) Pallant (2007).

4.0 RESULTS AND DISCUSSION

The objectives of this study were to determine the extent to which institutional change management presents challenges in the transformation of microfinance institutions into regulated deposit taking institutions in Kenya and to make recommendations for successful transformation of microfinance institutions into regulated deposit taking institutions in Kenya. There are nine (9) issues of managing institutional change that have been reported to have presented challenges to transforming MFIs in other countries. The nine issues are developing new operational policies & procedures, developing new instruments like passbooks, adopting new ICTs like ATMs, adapting organizational culture and structure, meeting physical facility needs like premises, financing the transformation process, financing the expected expansion in operations, financing the expected expansion in lending, and raising equity.

The respondents were thus asked to indicate the level of difficulty in dealing with the above issues related to institutional change management occasioned by MFI transformation in Kenya. The responses were measured on a four point likert scale of 1 to 4 with 1 as 'very low', 2 as 'low', 3 as 'high' and 4 as 'very high' level of difficulty. Descriptive statistics were first calculated and the results are shown in Table 1.

Table 1: Descriptive Statistics for Level of Difficulty with Institutional Change Management

	N	Mean
Developing new operational policies & procedures	49	2.14
Developing new instruments e.g. Passbooks	49	1.98
Adopting new ICTs e.g. ATMs	51	2.57
Adapting organizational culture and structure	48	2.15
Meeting physical facility needs e.g. premises	48	2.23
Financing the transformation process	53	2.68
Financing the expected expansion in operations	52	2.77
Financing the expected expansion in lending	54	2.52
Raising equity	53	2.70

Key:

Mean of 1.00 - 2.44: Low level of difficulty

Mean of 2.45 – 4.00: High level of difficulty

The findings show that 5 out of the 9 factors had high levels of difficulty, with financing the expected expansion in operations having the highest level of difficulty (2.77) (see Table 1). The remaining four factors had low levels of difficulty, with developing new instruments like passbooks having the least

level of difficulty (1.98). That MFIs faced a high level of difficulty with financing the expected expansion in operations confirms the assertion by Ledgerwood (1999) that transforming MFIs are often limited by a lack of funding sources because most of them were initially created as semi-formal institutions (as NGOs or some form of savings and credit cooperative). Switching from donor funding to the more expensive commercial loans and deposits results in huge costs (Campion & White, 1999) while raising funds from public deposits can also be challenging because potential depositors may be apprehensive about the accessibility of their savings.

The findings were further subjected to factor and regression analysis. Factor analysis was used so as to decompose the information contained in a set of variables into information about an inherent set of latent components or factors. This assisted in reducing the number of variables into fewer factors which are of similar characteristics and isolating factors with main effects to the characteristics of the dependent variable (successful transformation of MFIs).

A scrutiny of the correlation matrix of the factors making up the institutional change management variable revealed that there were fifteen (15) factors at 95% and 99% confidence interval with correlation coefficients of 0.3 and above. Thus the data for these variables was considered suitable for factor analysis. The resulting Total Variance Explained table revealed a total of three (3) factors with eigenvalues of 1 and above. Together, these three factors accounted for 70.04% of the variance.

Through Principal Component Analysis (PCA) method, three factors were initially extracted. However, two variables loaded very strongly (more than 0.5) on two components each. These are financing the transformation process (loading strongly on component 1 and 2), and adopting new ICTs e.g. ATMs (loading strongly on components 1 and 3). It was, therefore, decided to go for a 2-factor solution. The resulting Total Variance Explained table for the 2-factor solution revealed two (2) factors with eigenvalues of 1 and above. Together, these two factors accounted for 56.34% of the variance. Eight of the variables loaded strongly on one of the components. However, the ninth variable (meeting physical facility needs like premises) did not have a loading on either component, because of the instruction to SPSS to suppress loadings below 0.3. This variable was, therefore, excluded from further analysis. The structure matrix of the two factors with their loadings is presented in Table 2.

Table 2: Structure Matrix and Means for Institutional Change Management Factors

	Component	
	1	2
Financing the Expected Expansion in Operations	.817	-.427
Financing the Transformation Process	.811	-.480
Financing the Expected Expansion in Lending	.796	
Raising Equity	.723	
Adopting New ICTs e.g. ATMs	.626	
Adapting Organizational Culture and Structure		.841
Developing New Operational Policies & Procedures		.757
Developing New Instruments e.g. passbooks		.688
Means	2.53	2.08

Key:

- Variable Extraction Method: Principal Component Analysis; Rotation Method: Oblimin with Kaiser Normalization
- Criteria for factor analysis: loading of 0.5 and above on a component was accepted
- Mean of 1.00 - 2.44: Low level of difficulty; Mean of 2.45 – 4.00: High level of difficulty.

The resultant two components were then re-named as financing (component 1) and operations and culture (component 2). Component 1 comprised of five variables, namely, financing the expected expansion in operations, financing the transformation process, financing the expected expansion in lending, raising equity and adopting new ICTs like ATMs. Component 2 comprised of three variables. These were adapting organizational culture and structure, developing new operational policies & procedures, and developing new instruments like passbooks. The average scores for each re-named factor were then calculated. Descriptive statistics for the re-named factors were then calculated using the average scores for each renamed factor (Table 2).

As shown in Table 2, financing had a high level of difficulty (2.53) while operations and culture had a low level of difficulty (2.08). That financing was found to be difficult can be attributed to the fact that an entity that was previously without owners is now required to seek owners (shareholders) as it transforms. Success in getting the shareholders, especially private shareholders, depends on the willingness of potential investors. This finding concurs with the position reported by Ledgerwood (1999) and Hishigsuren (2006). These results also confirm the findings from descriptive statistics presented earlier on in Table 1.

Direct logistic regression was then performed to assess the impact of a number of factors on the likelihood that respondents would report that they had successfully transformed. The model contained the two independent variables, namely, financing and operations and culture. The following null hypothesis was tested and the results are presented in Table 3:

There is no significant association between institutional change management and successful transformation of microfinance institutions into regulated deposit taking institutions in Kenya.

Table 3: Logistic Regression Predicting Likelihood of Reporting Successful Transformation from Institutional Change Management Factors

Component	df	Sig.	Exp(B) (Odds Ratio)
Financing	1	0.009	0.194
Operations and culture	1	0.421	1.630
Constant	1	0.173	20.045

n = 48

$\chi^2 = 11.203$; df = 2; Sig. = 0.004.

Cox and Snell R square (0.208); Nagelkerke R square (0.278)

Overall percentage correct prediction (60.4)

The results show that the full model containing all predictors was statistically significant, $\chi^2 (3, N=48) = 11.203, P=0.004$, indicating that the model was able to distinguish between respondents who reported

and those who did not report successful transformation (see Table 3). The model as whole explained between 20.8% (Cox and Snell R square) and 27.8% (Nagelkerke R square) of the variance in transformation status, and correctly classified 60.4% of cases. Only one of the independent variables (financing) made a unique statistically significant contribution to the model. The strongest predictor of reporting successful transformation was operations and culture, recording an odds ratio of 1.63. Therefore, the null hypothesis that *there is no significant association between institutional change management and successful transformation of microfinance institutions into regulated deposit taking institutions in Kenya* was disproved and rejected. It was concluded that institutional change management was a significant challenge in the transformation of microfinance institutions into regulated deposit taking institutions in Kenya. This indicated that respondents who had difficulty with managing operations and culture change were less likely to report successful transformation than those who did not have a difficulty with managing operations and culture change, controlling for all other factors in the model. Financing is challenging in that a previously ownerless entity is now seeking owners and success depends on the willingness of potential investors. This finding concurs with the position reported by Ledgerwood (1999) and Hishigsuren (2006). At the same time, it has been reported that adapting organizational structure and culture change is not always easy (Campion & White, 1999). According to Campion and White (1999), a transforming institution needs to adapt its organizational structure and culture because the structure and culture should be able to support the methodology and operations of the new MFI.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

From the literature and empirical evidence in this research, the role of regulation in bringing sanity and stability in the financial sector cannot be underscored. As MFIs grow both in outreach and asset base, public interest on security of their resources also increases. However, the transformation process in Kenya is challenging.

The full model containing all predictors was statistically significant, indicating that the model was able to distinguish between respondents who reported and did not report successful transformation. This study, therefore, concluded that institutional change management is a significant challenge in the transformation of microfinance institutions into regulated deposit taking institutions in Kenya to a large extent.

5.2 Recommendations

5.2.1 General recommendations

Based on the findings, this study makes the following recommendations:

- (a) Transforming MFIs need to appreciate that institutional change management is a process that goes on long after legal transformation has been achieved. For instance, institutional and

operational transformation may go on for a little longer after the MFI has been issued with a license.

- (b) For successful transformation, MFIs need to prepare well in advance so as to overcome the challenges from financing. Adequate finances are required to finance the expected expansion in operations, the transformation process, and the expected expansion in lending as well as to meet equity requirements and adopt new ICTs like ATMs.
- (c) The regulator (CBK) should consider reviewing the regulations to make it easier for MFIs to transform.

5.2.2 Suggestions for further research

This study recommends further research:-

- (a) To find out the specific financing strategies adopted by successfully transformed MFIs in Kenya.
- (b) To determine the impact of Microfinance regulation in Kenya and establish whether the benefits justify the effort.
- (c) To determine the impact of MFI transformation on overall financial inclusion in Kenya.

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