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INFLUENCE OF EXISTING LEGAL AND REGULATORY FRAMEWORK ON INFORMATION TECHNOLOGY CHANGE IMPLEMENTATION WITHIN SACCOS

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Abstract: **The study's general objective was to examine the influence of existing legal and regulatory framework on Information Technology Change implementation. To outline the key concepts, the study was based on various theories that is Technology - organization - environment framework theory, theory of constraints, stakeholder's theory and the organizational readiness for change theory. A descriptive research design was adopted with a sampling frame made up of 2192 employees of the tier one Saccos in Kenya. The sample on which the survey was carried out on comprised of 21 in top management, 62 in middle level management and 244 operational staff totalling to 327. Data was collected using structured questionnaires and analyzed using the SPSS (v.22.0) tool. Statistical inferences were used to analyze the data collected in terms of reliability and validity after a pilot study had been conducted. Both tests of significance using regression and correlation analysis were used to indicate the significance level amongst the independent variables when assessed against the dependent variable. The study found that regulatory framework was statistically significant and with a positive correlation to implementation of these IT changes. The study concluded that regulatory framework is positively related to IT change implementation. The study recommends that Sacco IT policies on change implementation to be in line with the changing regulatory environment on financial technology.**

Keywords: **Legal, Regulatory Framework, Information Technology, Change Implementation.**

1. INTRODUCTION

In focusing towards ensuring proficient as well as effective service provision to its clientele, every financial sector player is keen on employing technology in the management of its systems. As more and more pressure is piled by the customers' need to access services faster and at greater convenience, players in the financial sector are on overdrive trying to have digital financial products. Innovations around Information and Communication Technologies (ICT) have become the competitive advantage among the financial sector players. With continued uptake of ICTs in financial services sector, the associated risk is ever increasing of possible loss of valuable customer data and money.

With the main focus of this research being the Saccos, as financial sector players, Saccos can be described as financial organizations operating on the basis of regular member deposits that enables access to credit facilities pegged on available member deposits plus guarantorship (Walubengo, 2012). With this model, members can access loan facilities of a value of up to three times their deposits provided there are guarantors. Guarantors, in this case, are fellow Sacco members who offer their deposits as loan security in the event of loan default by the loanee, hence the Sacco can recover its money from the guarantors' deposits. The loan terms for most Saccos is 1% interest on the loan monthly making their facilities more

attractive than banks who charge 14% annual interest onwards. (SASRA, 2017). In addition, the fact that no physical security such as an individual's assets is required like in the case of banks has seen the growth of loan books for most Saccos.

Changes delivered through information technology have the potential to not only transform organizations but also human life itself. (Bainbridge, 2005). It is then prudent to presume that change is paramount to the existence of every organization in this era of technology. However, control of the resultant change is of greater concern. An understanding of an organization's business landscape and internal structure consisting of the business goals and strategy are fundamental in the change implementation process, from initiation to delivery and post-change monitoring. With technology considered as disruptive, managing the implementation of IT changes is critical in ensuring that changes introduced through technology are not only beneficial but do not also negatively upset the business status quo.

Digital trends across the globe are progressively going a notch a higher year by year and driven by customer increased desire for greater convenience in financial services. Global push to digitize almost every single financial service in the financial sector has not just been confined within the banking industry. Greater uptake has been seen in Microfinance institutions, SACCOs, Capital Markets and even financial sector regulators. The increased shift from conventional brick and mortar comprising of physical branches and Automated Teller Machines (ATM) to mobile and internet banking has seen significant cost reduction in operational expenses. This shift, however, must be backed by robust and stable core banking systems from which all the customer data is drawn from. The investment in technology has gone to the extent of simplifying the opening up of an entire branch of a financial institution to just plugging in of an appliance. (Financial Services Technology, 2019). So as financial institutions continue to shift, greater expenditure has been channeled towards building core-banking systems that can easily integrate with mobility service delivery systems. This is currently estimated to be in the tune of US$9.7 billion globally for the year 2018. (Srinivas, V., & Ross, A& Ross, 2018)

This then means that the dependence on IT departments in these organizations becomes enormous in ensuring that organizations are well positioned to successfully compete. With this sea of opportunities providing competitive advantage and business leverage, its fair share of downturns comprised of risk exposure that these financial institutions have been subjected to.

Changes in the routine operating procedures are a constant feature in an establishment's life so asto adapt to the business environment according to Cummings and Worley (2009), the only argument being the increased frequency and magnitude now than before.

Kenya currently leads Africa in financial innovation inclusion, particularly on mature digital payment platforms. (Peyton, A. 2017). The increased appetite for technology adoption is driven by the desire of individual financial organizations to outbid the competition and consolidate customer base. As it stands, the product offering is almost similar across board, what provides the required edge among competitors is the ease with which customers can access their products, anytime, anywhere with the least need of assistance. Kenya is now considered to have the highest rate of adoption of digital financing in Africa. (Rethinking Banking, 2017). The resulting challenge is not only the amount of financial and technical skill investment required to deploy this technology for service delivery but also managing these changes. SACCOs are currently reported to have a total membership in the region of three million active members according to the sector regulator, Sacco Societies Regulatory Authority (SASRA). The deposit taking SACCOs were reported by SASRA to have a combined asset base about 442.27 Billion and a reported member deposit of 297 Billion. (SASRA, 2017).

Previously Saccos were mainly offering deposit taking services and loan facilities only which was referred to as Back office Service Activity (BOSA). But in recent years, there has been uptake of conventional banking operations such as account opening and running which was referred to as Front Office Service Activity. This shift of Sacco operations to match those of conventional Banks has led to significant increase in uptake of their services. The membership, asset base and loan books of the tier one Saccos easily outweigh most tier 3 banks.

The transition of operations from Back office activities to Front office Activity has brought in significant competition in the banking industry. As discussed earlier, Saccos have become a force to reckon with when compared to other players in the banking industry particularly those in Tier three. Owing to this, Saccos have been forced to level up to competition in order to maintain their niche in the financial services market. The ever-increasing demand by customers on ease of service access and utilization, just like banks, Saccos have been forced to innovate to stay relevant in the game. Serianu (2018)

alludes that increased uptake of ICT has been witnessed within the Sacco fraternity and their deployment ranges from core banking operations to providing users with alternate banking channels that comprise of Automated Teller Machines (ATM), Agency Banking, Internet Banking, and Mobile Banking. The push to adopt technology has not only seen massive upgrade of core banking systems but also full-fledged enterprise resource planning systems to manage the day-to-day Sacco operations.

2. STATEMENT OF THE PROBLEM

Change implementation in ICT is a major concern for all financial service providers across the globe. Cases of ICT solutions that had been initially touted as game-changers, which later turned out to be ineffective,have been reported world over, Kenya being no exception. Financial service providers are increasingly becoming early adopters of technology, owing to the competitiveness of the financial industry. (Marous, 2018). The level of investment in technology vis-à-vis the actual returns does not seem to be in correspondence when other factors such as service disruption and actual system utilization are taken into account.Technology-driven change implementationhabituallyencompasses actions which are reliant onintertwinedproceduralpractices. The affiliations are hardly understood in general from the inception and the man-machine linkagefrequentlydemonstrate difficult (Long & Spurlock, 2015)

For Saccos' core banking and enterprise resource planning systems, the goal is to ensure increased service delivery to customers with the least amount of transaction time while providing ease of access to a variety of products and services available. The overall intent is to have changes in technology to minimize operational expense while maximizing returns through reduction of physical contact with customers.(Alushula, 2019). This, however, is not the actual situation on the ground. Changes in IT systems have turned out to be very costly to most Saccos. This is not only limited to the actual cost of implementation but the losses incurred due to service disruption, inability of staff to effectively operate systems after changes or upgrades and general underutilization of the capabilities that the changes introduced come with.

Saccos, being membership driven, failures in IT changes owing to poor implementation directly translates to poor returns for the members during dividend payment. The losses incurred during unrealized returns from IT changes results significant reduction in profitability considering the average cost of IT changes. Besides the reduced returns to Sacco members, the resulting inconvenience from occasional systems disruptions after poorly managed IT changes is a greater cause of concern.(SACCOs urged to embrace ICT best practice, 2019). In this age of lightning speed transactions and increased convenience and ease of access, Saccos cannot afford to error when it comes to service delivery considering they are competing in the same landscape as banks and microfinance institutions.

Considering Saccos have a total membership of 3.6 million members, a combined asset base about Kshs 442.27 Billion and member deposit of Kshs 297 Billion,(SASRA,2017) the extent of loss to the economy and general national population by ineffective IT changes is quite enormous. Further breakdown indicates that tier one Saccos account for 59.84 percent of the total asset base. Studies on the context of IT change implementation in Saccos have been very few despite the massive of uptake of IT Technology.

3. LITERATURE REVIEW

During implementation of IT changes, considerations for the legal aspects as per the law of the land need to be taken into account. The regulator's dictates also have to be incorporated into the process to be able to effectively manage the changes being introduced. Changes within the legal and regulatory environment can significantly influence change implementation process. The organization's ICT guidelines have a key function in influencing the achievable benefits of change implementation. The inclusion of change implementation in the policies and its proper definition is the cutting edge about implementing IT based changes. Industry guidelines on best practise in relation to technology-based changes is a major contributor to the accomplishmentof the change enactment and subsequently the change implementation process.

Under the legal and regulatory framework variable, mattersrelating to current legislation, ICT policies and industry guidelines were examined on the impact they have on change implementation. Prevailing laws greatly affect the manner in which changes are introduced and managed in organizations. Wanjiru (2007) discussesthe influence of legislationthough indirect, is very strong on organizations implementing change. These laws and regulations can act either as constraints or as opportunities depending on the organization. This then brings to fore the significance of the process of change implementation where its success is determined by whether an organization views regulations as enablers or

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constraints to the change process. The study recommends compliance to regulatory prescribes and legislation, which in turn better prepares the organization for change hence effectiveness managing the change. Ndumia (2015) discusses the aspect of regulatory framework in his study on Influence of Regulatory Framework on Performance of Building Construction Projects. From this survey, it was determined that a regulatory framework where regulators foster improvement by firmson the basis of constructive and active commitmentwas key in change implementation.

In relation to industry guidelines, a study done by Kuta and Nyaanga (2014) on competence of contractors in construction industry in Kenya revealed lack of peer review on best practise standards within the industry contributed significantly in inhibibitng the effective implementation of projects. Lack of incorporation of registration to professional bodies in development of industry guidelines was among the outcomesof the study. The survey recommended a local legislative framework to manage implementation of projects and changes within the given field.Another study done by Kang *et al*., (2013) on interaction impacts of IT and best code of conduct on construction project performance established significant benefits between best practice application and efficiency of change executed.Utilization of IT in conjunction with best practise yielded positive outcomes in relation to project performance.

4. METHODOLOGY

Descriptive research design was adopted with a sampling frame made up of 2192 employees of the tier one Saccos in Kenya. The sample on which the survey was carried out on comprised of 21 in top management, 62 in middle level management and 244 operational staff totalling to 327. Data was collected using structured questionnaires and analyzed using the SPSS (v.22.0) tool. Statistical inferences were used to analyze the data collected in terms of reliability and validity after a pilot study had been conducted. Both tests of significance using regression and correlation analysis were used to indicate the significance level amongst the independent variables when assessed against the dependent variable.

5. FINDINGS

The respondents were asked to indicate whether the sacco had ICT policies on change implementation and for those that had, if the policies were guided by financial services industry guidelines on change implementation. The results were as shown in Table 1. The findings indicate that 67.1% of the respondents reported that their Saccos had ICT policies on change implementation while 32.9% reported not to have policies on change implementation. This shows that most Saccos have ICT policies on change implementation and the policies are structured in line with financial services industry guidelines on change implementation.

Below are findings from the statements presented to the respondents on legal and regulatory framework concerning IT Change implementation. The respondents were asked to indicate their level of agreement with each statement on how it affects project implementation. The findings were as shown in Table 1.

From the findings, the respondents agreed that SASRA guidelines played a key role in implementation of IT-based changes in the SACCO as shown by a mean of 4.164. The Saccos addressed IT Change Implementation issues with reference to Kenyan laws on financial services industry as shown by a mean of 3.926, while adherence to Sacco's ICT policy is also upheld as shown by a mean of 4.095. The respondents also agreed that lack of audit (review) of the organization's IT Change implementation practices contributes to defective systems as shown by a mean of 4.182.

Table 1: Legal and Regulatory Framework

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	St. Deviation
The SACCO addresses issues arising during implementation of IT-based changes with reference to Kenyan Laws on financial sector.	37	155	24	15	0	3.926	0.722
SACCO's ICT Policy is adhered to during IT Change implementation in the SACCO	54	148	26	3	0	4.095	0.625

SASRA guidelines play a key role in implementation of IT-based changes in the SACCO	67	141	17	6	1	4.164	0.665
Lack of audit (review) of the organization's IT Change implementation practices contributes to defective systems	90	102	30	9	0	4.182	0.803

The results also revealed that there was positive correlation between legal and regulatory framework and IT Change implementation as shown by r = 0.486**, statistically significant p = 0.000.

6. CONCLUSION AND RECOMMENDATION

The study recommends that Saccos should proactively align their IT policies on change implementation in line with the changing regulatory environment particularly on financial technology. There should be liaison between the regulators and sacco insudtry players in review and development of IT change implementation regulations to address the rapid changes in fintech. Legal and regulatory Framework is statistically significant to IT Change implementation. This shows that Legal and regulatory Framework had significant positive relationship with IT Change implementation. This implies that a unit increase in Legal and regulatory Framework will result to increase in IT Change implementation. The study concludes that Legal and regulatory Framework is positively related to IT Change implementation.

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