Managing Decentralization at the Small Enterprise Foundation (SEF)[1]

NORTHERN PROVINCE, SOUTH AFRICA

Case Description

The Small Enterprise Foundation (SEF) is a non-governmental organization that has offered credit to micro-enterprises in the villages and townships of South Africa's Northern Province since January 1992. As it attempts to expand its operations and outreach, the organization faces the challenge of becoming "sustainable" by the year 2003. Among international donors and micro-finance institutions, the term "sustainability" refers to becoming profitable or covering all operational and financial expenses over the long term so that the institution can expand its outreach and access funds in commercial markets. Thus, in order to expand its revenue base, SEF must motivate current staff members to become more productive, recruit and train new staff, control operational expenses, and adapt policies and procedures to maintain strong credit discipline while meeting client needs.

Yet few field staff members fully understand the concept of sustainability, and most distrust the concept as a ploy by management to "exploit" them. In the face of pressure from the field staff's trade union, controlling growth in basic salaries (approximately 70% of all expenses) has become difficult. Senior management has identified staff motivation as one of their key concerns. They would like to cultivate an understanding of and appreciation for the concept of sustainability among field staff and branch managers to motivate them to become more productive in seeking this goal. They hope to create a greater sense of organizational ownership among the field staff and branch managers by providing appropriate training and decentralizing some decision-making power once the staff members have the necessary skills.

Position in the Course

This case focuses on the organization's efforts to train staff and decentralize decision-making in an effort to become "sustainable." It describes the complex context of rural South Africa, the organizational structure and goals of SEF, as well as the challenges faced by SEF managers in achieving those goals, in particular the goal of "sustainability." It asks readers to assess the need for decentralization, develop a strategy, and explore how to implement their strategy. It could be used in a variety of courses such as Organizational Behavior, Organizational Development, Strategy, Human Resource Management, International Business and Non-Profit Management.

Teaching Purpose and Objectives

The purpose of this case is to explore the following issues:

1. The process of strategy development, in particular how financial performance and personnel dynamics shape management strategy.

2. The advantages and disadvantages of decentralization as a strategy for motivating staff and improving an organization's financial performance, especially in the South African context.

3. The obstacles to the implementation of decentralization.

Students should gain a better understanding of the management challenges faced in post-apartheid South Africa. They are asked to think of concrete actions management can take to build a healthy organization in a rural area despite the lack of human resource and financial management skills among the previously disadvantaged communities.

Assignment Questions

1. Evaluate SEF's recent progress toward sustainability. Is there a need to decentralize decision-making?

See the "Quick Sustainability Analysis" in Exhibit TN-1. SEF's income statement (Exhibit 6 in the case) reveals that the organization is still struggling to make progress in its efforts to reach sustainability. Its operational losses (not including investment income) continue to increase during the fiscal year ending June 30, 1998. As shown in the exhibit here, the organization's loss after Head Office expenses declined negatively by 41%.

Insert Exhibit TN-1 about here

However, as indicated in the case, the 1998 operational loss was considerably less than the projected loss. Some progress, especially in revenue generation, can be observed. During the period, loan interest earned jumped by 82%. The changes in interest rate, loan size, and loan term policies have reaped benefits. In contrast, expenses have grown at a slower rate, fortunately. Head Office expenses grew by 47% while other operational expenses grew at 58%. The main reasons for growth in these areas were salary increases and the expansion of operations.

If SEF is bettering its profit targets and increasing productivity without any serious decentralization, some might argue that there is no real need to decentralize. Indeed, some SEF branch managers seem content to continue to play a largely administrative role in the organization without assuming additional responsibility. They lacked self-confidence and are intimidated by formal training courses. They also identify with the loan officers more than they do with senior and zonal management. SEF's gains have been largely due to centralized decisions on interest rate and loan policies, which have made loan officers more productive by simply increasing the price of their product. Some may argue that this centralized approach is more efficient. SEF could minimize its costs further by not investing in branch staff skills development.

Yet this more centralized approach is shortsighted. In post-apartheid South Africa, African employees are very distrustful of management due to the long history of inequality in access to training, promotion, and fair compensation. Organizations, especially micro-finance institutions, rely heavily on staff productivity to be efficient, so they must be proactive in addressing gaps in knowledge, skills, and wages to motivate staff to perform at required levels. At SEF, a key priority is developing branch manager capacity to understand and communicate the concept of sustainability to their staff. Once this capacity exists, branches can begin to devise strategies more responsive to their geographical areas and client needs. Branch managers would be able to monitor progress on the ground closely and respond quickly to problems rather than relying on a Zonal Office or the Head Office to identify a problem. In this process, branch staff would begin to act more as a team and share ideas about how to cope with certain problems. Currently, loan officers work in isolation from each other and only meet once per week at the branch to complete paperwork. By building capacity in the branches and then decentralizing decision-making power, SEF will invest in a process that may not result in immediate changes to policies and procedures but will improve staff morale and encourage them to work more as a team with a strong leader in their branch manager.

2. Design a decentralization action plan for SEF.

The following is an action plan that was designed and implemented jointly by SEF's Development Department and the MCP Zonal Office shortly after the October 1998 Sustainability Workshop.

Profit Center Action Plan

1. Provide and review information on branch performance regularly, especially regarding profitability.
   - Each branch will receive its forecasted monthly budget for the financial year 1998-99 at the beginning of each month from the Head Office.
   - Each branch will receive and use income statements for all four branches to measure its performance. Each branch will meet every month to discuss its performance and compare its performance to the other branches. It will evaluate its performance based on what it must do to win a branch bonus.
   - During the monthly branch meetings, the branch managers will present and explain the important points of their income statements. The branch managers and field staff will develop strategies for improving performance.
   - Training will be provided to both branch managers and field staff (See Action # 2 below for more details).

   Goal: Improve the branch staff's access to and understanding of profitability measures in order to increase branch self-management capability.

2. Develop the branch managers' financial management skills.
   - The Profit Centre Committee will identify training needs and submit proposals for action continuously.

- The committee's Development Department Representative (the case author) will train branch managers to read branch income statements and calculate any field worker's monthly contribution to profit. The branch managers will then train each field staff to perform the calculation. They will coordinate these training sessions with the Training Department.
- During the course of the year, the Development Department Representative will develop a financial management-training module for branch managers based on practical applications and management needs identified by the committee. He will create a curriculum and a brief reference manual.
- In March 1999, the branch managers will begin to prepare financial projections for their individual branches for the financial year 1999-2000. These projections will be incorporated into the Head Office's projections for the entire organization.

  Goal: The branch managers will project their branches' revenue and expenses for the financial year 1999-2000.

- The branch managers will be able to read and explain branch income statements by the end of December 1998. In addition, the field workers will be able to calculate their individual profit margin by the end of December 1998.
- The branch managers will be able to budget their branch expenses and forecast its revenue by the end of March 1999.

3. Decentralize some decision-making.
   - The new committee will evaluate the areas of decision-making that the previous committee identified and researched during its November 16 meeting. It will develop recommendations for action and submit them to the zonal manager at the December 7 meeting.
   - The committee will identify decisions for decentralization and submit recommendations for action to the zonal manager on a continuous basis.

   Goal: Streamline decision making to make the organization more efficient and driven by the branches.

4. Identify and compile "best practices" for the branches.
   - Identify how the best performing branches achieve their results, determined through discussions and research.
   - The researcher will compile a brief working paper describing and examining the MCP branches' "best practices" for circulation and discussion among the branches.

5. Design and implement a profit-based incentive system.
   - Committee members will participate in the Sustainability Workshop discussion.
   - After the workshop, the committee will meet on October 26 to discuss the results of the October 24 discussion. At this meeting, the committee will receive a list of the standards agreed upon at the workshop and examine the ideas discussed there in more detail.
   - After the meeting on October 26, each branch manager will report back to field staff about standards agreed upon and ideas discussed at the workshop from October 26-30. Branch managers will ask staff to think about the proposed ideas and be prepared to make recommendations during the week of November 2-6.
   - During the week of November 2-6, the committee secretary (case writer) will visit each branch to discuss the proposed ideas and the staff's recommendations.
   - At the committee's November 9 meeting with the Zonal Manager, the status of the consultation process will be re-evaluated. We will discuss the degree of participation by field staff in recommending ideas and assess which ideas to accept or reject among those recommended by the field staff. Based on this discussion, the committee chair and secretary will design an incentive system to submit to the Zonal Manager and Managing Director.
   - At the committee's November 16 meeting, the proposal for a new incentive system will be discussed and verified by its members. After any corrections or revisions, the proposal will be submitted to the Zonal Manager and Managing Director.
   - A workshop will be held during the last two weeks of November to discuss and decide whether to accept, reject, or modify the proposed incentive system.
   - If the proposal is accepted, the zonal and head Offices will set up an appropriate operational structure to manage the new system and announce this structure to the branches in December or January.

3. How will you convince staff of the advantages of your plan and implement it?

MCP branch managers played a major role in developing the plan outlined above. As a result, they understood and supported its goals. For the first time, they began to see themselves more as managers and not as messengers. Thus, they felt somewhat confident in talking to their loan officers about it. The branch managers still needed support from the Development Department, especially in communicating to staff the more technical side of the incentive system proposals. The Profit Center Committee was the forum for discussion and assistance. After each committee meeting (held twice per month), a new proposal was drafted and submitted to the branches for discussion. By being involved in the development of these proposals as a committee, the branch managers were able to learn from each other and act as a problem-solving team. Slowly, their confidence improved. Still, not all branch managers wanted this greater responsibility. Some were happy to act as messengers for the committee.

The main vehicle for discussing this plan with loan officers was branch meetings/workshops to discuss proposals to change the incentive system. Since these were proposals to change their remuneration, the loan officers were very focused and initially hostile to any change. Once they began to understand the main concepts behind the incentive system proposals (principal outstanding, repeat groups, etc.), the discussions became more dynamic. To reach this stage, branch managers and Development Department staff held several meetings with loan officers in each branch. Six proposals were discussed and revised in a participatory manner in each branch. Finally, after four months of discussions, the branch managers organised and managed (with assistance from the Development Department) a general workshop that all loan officers attended. At that workshop, all participants agreed to the new system's principles and detailed structure and set a date to adopt the new system.

Conclusion: Subsequent Events

A new incentive system incorporating key sustainability indicators (principal outstanding, number of repeat and new groups, and branch profitability) was adopted by the MCP branches in February 1999. MCP began implementation of the new system in April 1999. Many loan officers have experienced an increase in commission and are now more motivated than before. In addition, many see sustainability as a good goal.

The financial management training was conducted by an outside consultant. In the first training, only 3 of 8 participants passed the training. The other five will be required to pass the training in order to be considered for promotion to another position or to the next grade of their position.

Decentralization continues to move along slowly. The Profit Center Committee submitted its second round of recommendations to senior management in June 1999. Most recommendations involved moving authorization for administrative issues (i.e. granting loan officers leave) from the Zonal Office to the Branch.

1. This note was written by Brian Kuwik of University of Washington.