

Building the Board 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. SEF is modeled on the Grameen bank, a pioneering micro-finance organization founded by Mohammed Yunus in Bangladesh. The Small Enterprise Foundation represents the first institution in Africa to take this "Grameen Methodology" and apply it in Africa. Peer lending forms the core of this methodology. Potential loan recipients are organized into groups of five. They undergo training together. In this training they learn the rules of the organization including the repayment procedures, loan terms, meeting policy, and they develop business plans. They also learn about each other. There is a group test, administered as an oral exam that members must pass before they become eligible to receive loans. The subjects covered in the exam come straight from the training. Included are questions about the names of other group member's spouses and children. It's important to build group solidarity as the members guarantee each other's loans. That means if one member misses a payment, the other ones must cover it.

The case explains in some detail the loan methodology in order for the reader to understand the level of trust and belief in people needed to operate a micro-lending organization using this methodology. The fact that SEF works in South Africa adds to the complexity. South Africa has a history of human beings treating each other extremely poorly. SEF chose to operate in the poorest region of South Africa. To launch an organization founded on trust in this climate took a great effort.

John de Wit, the founder of SEF, is a unique person. He combined the passion of an entrepreneur, the exacting standards of an engineer, a gift for organization, and a vision for social justice. Despite all these talents, he needed help to launch this organization. The individuals he chose for the Board of Directors helped to realize the goals. In order to work in the Northern Province, formerly known as the Northern Transvaal and an Afrikaner heartland, he needed the endorsement and collaboration of local black leaders. He needed an organizational plan simple enough so that a poorly educated workforce could grasp it, and complicated enough to track thousands of loans. He needed collaboration from South Africa's formal financial sector in order to help his poor clients establish banking relationships. He also needed access to funds. Banks, development institutions, and private individuals capitalized SEF with loans, grants, and donations, respectively. The Board helped in each of these areas.

Position in the Course

This case is targeted for finance organizational behavior, economic development, leadership, microfinance, and non-profit management courses.

Teaching Purpose and Objectives

This case was written with entrepreneurs in mind. The purpose is to explore the following issues:

1. The important role a Board of Directors plays in solving critical problems facing an organization.
2. The implicit endorsement of a business idea that occurs when influential people join a Board of Directors. This can be especially important when the business idea represents a radical new concept.

3. The advantages and disadvantages of having a visionary founder. De Wit developed a Board that he controlled, and at the time the case was written, none of the Board members were truly independent. The Board played no role in assessing the quality of the management or in holding de Wit accountable for performance. These functions represent what may be the more common student perceptions of the functions of a Board of Directors.
4. Build awareness that as organizations change, the composition of the Board of Directors should change as well. SEF was in transition from a loss-making start-up to a growth organization with profitability on the horizon. New skills and abilities may be necessary for the Board to remain effective during the transition.

In addition, students should gain a better understanding of the management challenges faced in post-apartheid South Africa. They are asked to think about the role of race in the workplace in a place where that issue governs every facet of an organization, from the composition of the Board and the need for buy-in from black leaders, to the choice of the operating language (English in this case).

Assignment Questions

1. **Identify the role the Board of Directors played in SEF's development to-date.**
2. **Identify skill areas missing from the Board of Directors. What other responsibilities should the Board have?**
3. **Discuss the viability of the current Board size and the importance of the informal policy regarding racial composition.**

The current Board does not play a role in holding management responsible for performance. It is a functional Board designed to serve the organization's needs.

De Wit identifies the ideal Board size as six. Decisions are to be made by consensus. I am not sure that consensus is a realistic way to govern an organization. Might not a configuration of 7 members be better so that decisions follow majority votes? The Board has also had a traditional black majority. What are the pros and cons of this?

Missing from the Board is a prominent local white businessman. What effect would such an addition have on SEF? Tzaneen is a wealthy community and SEF did little to integrate into that community.

Conclusion: Subsequent Events

A new Board member was added, bringing the total number to six. The addition was a prominent black businessman named Mutle Mogase who lives in Johannesburg. Mutle Mogase was a founding Director and shareholder of Real Africa Group as well as a founding Director and major shareholder of MMR Equity Capital, an empowerment financial service company. Real Africa Group is a publicly held company listed in the Johannesburg Stock Exchange. In addition, he also serves as a director of African Construction, the Provincial ASBA Bank Board, The Post Bank, and Momentum Employee Benefits. He earned an MBA.

De Wit knew him because Mogase had an interest in the financial development of South Africa's black population and they both attended meetings on the subject. When de Wit asked him to join the Board, he had no idea of Mogase's wealth or connections. He just identified him as someone he respected after hearing him speak at these meetings.

One of Mogase's first actions on the Board of Directors was to begin establishing performance criteria for de Wit. He set performance targets and fixed the size of de Wit's bonus to the success of the organization in achieving these targets.

MMR and Real Africa Group came to prominence in post-apartheid South Africa. On coming to power in 1994, the ANC government abandoned the socialist rhetoric it had used to mobilize the South African masses against apartheid. Instead, it insisted that political liberation be followed by economic liberation, i.e., that blacks should benefit from affirmative action in employment, government contracts, and privatization. The government program of "black empowerment" was aimed at facilitating the creation of large black-owned businesses. Hundreds of new companies were launched in the past five years.

In September 1995 only 1 percent of the market capitalization on the Johannesburg Stock Exchange was under black control. Today the figure has risen to 16.3 percent. Last year, black companies made 130 major investments worth R21 billion (£2.1 billion) compared with R5 billion (£0.5 billion) in 1997 and R1.6 billion (£0.16 billion) in 1996.

Few black South Africans have money of their own to buy into such equity, so almost every empowerment deal has been built on debt. The banks made arrangements for these "capitalists without capital" by setting up "Special Purpose Vehicle" (SPV) and issuing shares with a life of three to five years. The shares are pledged as security for the loans used to buy them. This means that the SPVs depend on continually rising share prices for their success and moderate interest rates. Real Africa Group followed this pattern, issued debt, and purchased shares in many of South Africa's largest companies.

DeWit continues to be the Managing Director of SEF. He lives in a small house in the hills above Tzaneen with his American wife and daughter. They met when she came as part of a TV crew that visited SEF with the purpose of filming a documentary on this organization.

DeWit has since removed himself from day-to-day operations of SEF. Ben Nkuna, the former head of the TCP, is now the Chief Operating Officer of SEF.

1. This note was written by David Berkowitz of the University of Colorado-Denver.

