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Leadership problems at ganzeb microfinance institution

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In late 2008, Dawit Markos was sitting in his office considering his options regarding the future of Ganzeb Microfinance Institution (Ganzeb) as a microfinance firm in Ethiopia. As the chair of Ganzeb’s board of directors, Markos had recently been informed of many problems that had been plaguing the company, significantly harming its profitability. The National Bank of Ethiopia (NBE) had sent a letter demanding a meeting with the board. Because the bank had final say on which microfinance firms were allowed to operate, Markos knew that he, along with his two fellow board members, needed to make a quick but thoughtful decision regarding Ganzeb’s future.

THE MicroFinance Industry

The Ethiopian government had a politically checkered history. Despite efforts to become more democratic over the years, the country was not a full democracy. In 2005, a national election fell short of international standards for free democratic elections.[[1]](#footnote-1) Although Ethiopia was politically stable, there was little room for questioning the government or government standards for business. Corruption within the Ethiopian economy was on the decline, but it had not disappeared from daily business interactions.

The Ethiopian government placed strict regulations on the microfinance industry. In order to ensure the protection of domestic interests, there was limited foreign investment. All microfinance institutions had to look for funding domestically and could only accept foreign investment if it was by donation. As of 2008, the government had a 94 per cent market share of this industry. The remaining 6 per cent was controlled by non-governmental organizations (NGOs). There were 38 registered microfinance institutions in Ethiopia.

Microfinance was strictly a social enterprise within Ethiopia, and it could not be considered a for-profit business. Therefore, the growth of the industry relied upon Ethiopian social investors, and the industry had a low growth rate of less than 4 per cent. There was a high need for microfinance loans, but there were not enough institutions or capacity within institutions to serve this need. The main challenge that microfinance institutions faced was determining whether the need for loans was driven by personal finance problems or legitimate business needs.

Ganzeb’s History

In March 2000, Ganzeb was licensed through the NBE and registered by the Addis Ababa administration. The institution was formed as a spin-off of the Integrated Rural Development Program, run by an indigenous NGO, the Ethiopian Agriculture Association (EAA). EAA provided the initial capital through the organization of six shareholders and set up a board of directors to oversee governance and ownership of Ganzeb.

Ganzeb was established to provide financial services to active rural and semi-urban communities in Ethiopia. Its mission statement read, “Ganzeb Microfinance strives to bring positive change to the well-being of the active poor and less privileged category of society through provision of appropriate and sustainable financial services, and building of vibrant and sustainable financial institutions.”

In addition to providing microcredits to its target market and managing savings deposits, Ganzeb also provided organizational and financial support in the form of training and advice. Its microcredits were targeted for household needs/consumption, and its loans were primarily for use in the agriculture industry. Ganzeb also offered voluntary savings accounts, compulsory savings accounts, fixed term deposits, compulsory credit life insurance, and savings facilitation services. These services greatly affected the surrounding communities and established Ganzeb as a highly reputable microfinance institution. Its strong management consistently met the strict regulations of the government and the NBE, and consequently, it was identified as one of the best microfinance institutions in the country.

Management and Staff

As a long-time employee of EAA, Etufu Tasfaye was brought in as chief executive officer (CEO) to manage Ganzeb. With nearly a decade of experience with the NGO and a degree in agriculture, Tasfaye was well qualified to lead the institution. A board of directors with four members was established to manage and advise the CEO. Members were nominal, with no share or financial interest in the institution. Markos chaired the board, which included with two other employees from the NGO and Tasfaye. Board members had side commitments as individual business owners.

Staff members traditionally had great attachment to the work they did at Ganzeb. At the time of Ganzeb’s inception, its workforce was brought in from EAA, and further expansion involved recruitment on a referral basis. Most managers were hired externally from partner organizations or EAA, while all other positions were promoted from within. Due to the close relationships among staff, job roles were not formally established. In line with this, there were no formalized processes in place for determining salary and compensation packages (see Exhibit 1).

Organization

Ganzeb had a strong culture of autonomy where branch managers were empowered to focus on strategic issues in their own territories. While some services (such as human resources and finance) were centralized, other functions (including information technology, risk management, and purchasing) were branch specific. All branches at Ganzeb were treated equally, and the budget was evenly distributed. Donor relations were also handled at the individual branch level (see Exhibit 2).

Partnerships

Due to the lack of direct financial investment from outside organizations and individuals, Ganzeb acquired its donations and capabilities through international partnerships. Osstacht, a Dutch-based institution that provided donations, expertise, and bank guarantees, partnered with Ganzeb to reach the very poor of Ethiopia. QUASI, an international NGO, funded the building of Ganzeb’s head office in Addis Ababa and covered the salaries of employees in the organization.

Escalating Problems

Until 2005, Ganzeb had performed very well. It had opened new branches, consistently expanded its loans program, and maximized the number of clients. Its performance metrics had been above the industry average, and the institution had met the financial obligations and goals of the NBE. Throughout Ganzeb’s first five years, a low default rate, along with a well-managed portfolio, led to minimal problems with its investors and the bank.

However, starting in 2006, Ganzeb headed into a downward spiral that jeopardized its reputation as the country’s best microfinance institution. There were problems within the organization’s structure that had led to poor financial performance. The issues plaguing management had taken focus away from Ganzeb’s initial mission. Ultimately, its poor financial performance drew attention and concern from the NBE: unless it managed to turn around its performance, Ganzeb would have to close its doors.

Current Issues

Ganzeb was facing serious problems with its upper and middle management structure. A system that had at one time enabled clear communication was now filled with conflict among the different levels. The lack of defined roles for managers and employees had begun to pose a problem as communication declined. Upper management stopped returning e-mails and phone calls, which left middle management with complete autonomy to make decisions. Over time, upper management began spending more time off site, which further weakened lines of communication. Branch managers became frustrated with absenteeism among upper management and began to stray from seeking approval for portfolio decisions. This led to some branches having a portfolio risk of 5 per cent, while others had a risk of 13 per cent, instead of being consistent as in past years or in line with the industry standard of 5 per cent.

This performance, since 2005, had led to complaints from the NBE and a drastic increase in defaulted loans. Branches began developing ideas of how to improve their own individual financial performances, instead of collaborating to improve Ganzeb as a whole. Some branches focused on return on investment, while others looked at loan size or risk. The solutions that individual branches implemented did little to help the organization; rather, they increased the tension between branches and upper management.

The clash between upper and middle management was severely affecting morale. The lack of communication had left employees demotivated about the work they were doing. In an industry and country where passion and motivation was essential to help small businesses, this negatively impacted the work and performance at Ganzeb’s branches. In early 2008, several key executives left Ganzeb to pursue opportunities in other microfinance intuitions and banks. Many cited a lack of organization and employee appreciation at Ganzeb as their reason for leaving. The departure of these employees increased lower-level staff turnover, which further affected morale.

In addition to this turnover, employees were unhappy about the distribution of income in the company. As upper management became more absent and more responsibility fell to the individual branches, employees were displeased to note that the increased workload was not accompanied by an increase in wages. Branch managers were upset with the higher salaries for upper management, who did little to improve the institution’s performance.

High-level managers of Ganzeb, including members of the company board, were often absent from important business decisions in an industry that required very involved management. In the past, Tasfaye had been straightforward with his leadership style and had been involved in branch decisions. However, in recent months, he had increasingly been absent. It was rumoured that he was working on a side venture, which infuriated Ganzeb employees.

These human resource problems had led to poor financial performance. In the past eight quarters, Ganzeb’s risk portfolio had increased from industry standards by 12 per cent to 17 per cent across all branches. This increased risk raised a red flag at the NBE. Because microfinance institutions were heavily regulated in Ethiopia, any negative attention from the bank had the potential to cause serious problems at Ganzeb. The institution was unable to meet the financial obligations set by the bank in 2007, and it had received several warnings to improve performance or face consequences from the government.

Looking Forward

Markos looked over the bank’s letter again, along with two others that he had received that week from partnership organizations related to the deterioration of performance in the branches. QUASI was offended by the mistreatment of the representatives it had sent to Ganzeb’s branch office a few weeks ago. Osstacht also threatened to withdraw its support if Ganzeb did not take action to reverse the high turnover among staff.

This was the NBE’s second notice regarding Ganzeb’s performance. After two years of inactivity from the board, the NBE was demanding an immediate meeting with representatives to discuss the problems facing the institution. If this issue was not sorted out, Ganzeb risked losing its licence to operate in Ethiopia.

Markos wondered if he could gather the other board members in time. His last few attempts to organize a meeting had failed, but maybe the seriousness of this situation would finally convince the other managers to pay attention. Markos was also having a hard time tracking down Tasfaye, who had not come to work for the past week. As he picked up the phone, several questions ran through his head. Where had Ganzeb’s leadership gone wrong? Why had so many loans been defaulting? How could the company reverse employee turnover? Who was responsible for this mess, and how could Markos hold that party responsible? All these questions would have to be answered before his meeting with the bank.

Exhibit 1: Staff Data

Table 1: Staff Strength

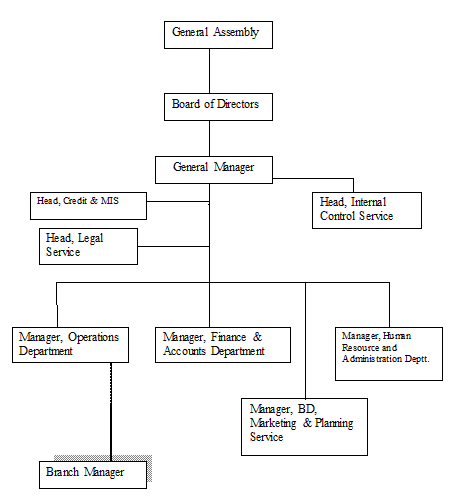
|  |  |  |  |
| --- | --- | --- | --- |
|  | **Educational Level** | **Number of Employees** | **Percentage** |
| 1. | Degree | 17 | 11.0 |
| 2. | Diploma | 51 | 33.0 |
| 3. | Unspecified | 1 | 0.6 |
| 4. | Completed high school (10–12 grades) | 60 | 39.0 |
| 5. | Less than high school | 24 | 16.0 |
| **Total** |  | **153** | **100.0** |

Table 2: Work Experience of Employees

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Years of Service** | **Number of Employees** | **Percentage** |
| 1. | < 1 year | 2 | 1.3 |
| 2. | 1–3 years | 48 | 31.4 |
| 3. | 4–6 years | 71 | 64.6 |
| 4. | 7–9 years | 22 | 14.4 |
| 5. | > 10 years | 10 | 6.5 |

Source: Company documents.

Exhibit 2: Organizational Structure



Source: Company documents.

1. “Ethiopia: Events of 2005,” Human Rights Watch, accessed March 30, 2017, www.hrw.org/world-report/2006/country-chapters/ethiopia. [↑](#footnote-ref-1)