COLUMBIA BUSINESS SCHOOL

Entrepreneurship: A Case Study in African Enterprise Growth

Expanding Private Education in Kenya: Mary Okelo and Makini Schools

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Mary and Pius Okelo and Makini Schools

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IT WAS JANUARY 7, 2002, AND THE FIRST DAY OF SCHOOL in a lush neighborhood of Nairobi, Kenya. The children of the Makini Upper Primary School mixed noisily with teachers, who were trying to direct them to their classes. Mary Okelo surveyed the scene from her nearby office. The modest eight-student enterprise she had founded in 1978 with her husband, Pius Okelo, had grown into one of Kenya's top private schools. Indeed, by 2002 one could no longer even speak of just one school. The enterprise had grown to consist of seven related schools: lower, middle and upper primary schools within walking distance of the school's original location; primary, secondary and International Baccalaureate schools at a new location outside of Nairobi; and a new satellite primary school close to downtown, on its very first day of operation.

Makini students at the different locations consistently achieved among the top scores in Nairobi and nationwide on exams administered each year by the Kenyan government. Because of these top scores and the schools' reputations for uncompromising quality, parents in Nairobi clamored to get their children into the schools. But Mary felt, despite their success, that she and her husband still faced significant challenges in running the institution. Because of Kenya's fragile economy and volatile political climate, the most recent expansion of Makini Schools had almost ended in disaster; the last few years had been some of the most trying in the history of the schools. In light of these experiences, should Makini Schools continue to expand, and, if so, how should this expansion be accomplished? Furthermore, she and her husband needed to resolve issues of succession, as they wanted their grown children to take over what was still a wholly family-owned business. But how and when should this transition take place?

1. Background

1.1 Kenya

When Kenya gained independence from Great Britain in 1963, it was already one of the most developed countries in sub-Saharan Africa. Jomo Kenyatta was elected president that year, and during his 15-year presidency, Kenya largely prospered. On Kenyatta's death in 1978, Vice President Daniel arap Moi ascended to the presidency. During the following 10 years, however, intolerance of political opposition increased, and corruption became increasingly rampant. In 1992, facing increasing domestic dissatisfaction with his policies and after the IMF and World Bank had taken the unprecedented step of suspending their loan programs to Kenya, Moi relented and returned Kenya to a multiparty democratic system. However, the opposition parties split almost immediately along tribal lines, which are still very important in Kenya, leading to Moi's reelection in 1997. In 2002, Moi announced that he would not stand for reelection that year, opening the door for the most widespread political changes in Kenya in decades. This came none too soon: Kenya's economic progress of the 1960s and '70s had largely stagnated in the '80s and '90s. This stagnation had adverse consequences for all parts of Kenyan society, especially the education system.

1.2. The Kenyan Education System

The Kenyan education system, which resembles that in America, consists of eight years of primary education (equivalent to American elementary and junior high school), four years of secondary education (i.e., high school) and four years of college. However, spots in the secondary system are available to only half of the roughly 500,000 students who graduate from primary school each year. After secondary school, it becomes even more competitive: only 10 percent of the roughly 200,000 secondary graduates receive placement in Kenyan universities.

Two standardized tests determine which students receive the coveted spots in secondary schools and universities: the Kenya Certificate of Primary Education (KCPE) and the Kenya Certificate of Secondary Education (KCSE). The 2,000 students with the best scores on the KCPE are offered positions at eight prestigious "national schools," elite secondary schools that draw their students from all over Kenya. After those spots have been filled, students are placed in provincial secondary schools and, finally, in the least prestigious district schools. Of course, 250,000 students are left with no place at all after this process is finished, regardless of whether or not they pass the test. The KCSE determines who wins subsidized spots in the public Kenyan universities in a similar manner.

Until 1980, almost all education in Kenya was provided free of charge by the government. Throughout the '80s, however, reduced foreign aid and a deteriorating economy contributed to a gradual decrease in per pupil funding and a deterioration in school quality. A decision in 1986 to radically alter the structure of primary and secondary education also added many new courses to the required curriculum and placed increased demands on schools' limited resources. In response, previously free public schools began to charge fees that by 2001, ranged from 3,000 Kenyan shilling ($38) to as much as 30,000 Kenyan shilling ($380) a year, depending on whether the school was located in a poor or wealthy neighborhood. Because government funding for education is absorbed almost entirely by teaching and administrative salaries, these fees are the only means schools have to pay for general maintenance, school supplies and books. Schools charging lower fees have therefore had to cope with far fewer resources. Furthermore, some of the poorest families cannot afford even $38 a year, which has contributed to the increasing problem of "street children" who do not attend school.

In the 1980s, the deteriorating quality of public education in Kenya and the rationing of spots created demand for private alternatives. Entrepreneurs responded, and by 2001 there were 700 primary and 300 secondary private schools throughout Kenya. Because of the need for laboratories, athletic facilities and other amenities, secondary schools are more capital-intensive than primary schools and are therefore typically less attractive investments. This has led to a greater number of private primary schools than private secondary schools, despite the fact that the secondary market is potentially even more underserved.

The quality of private schools varies greatly despite government efforts to license and inspect them. In recent years, the best private primary schools have led the nation in scores on the KCPE. The best private secondary schools lie somewhere above the provincial schools but are not yet considered equal to the elite public schools in prestige and quality. While the general public may have been slightly unfamiliar and uncomfortable with the concept of private schools at their inception, it is now readily accepted that private schools can provide superior education:

> "Since their inception, private schools, especially in urban areas, have dominated their public counterparts in performance on national examinations. They have turned out to be the shrines of quality education in Kenya, churning out top achievers year after year."
>
> *Kenyan Star,* January 12, 2002

All indications are that private schools will continue to play an important role in the foreseeable future.

Table: Schools in Kenya, December 2000

Type of School	No. of Schools
Public Primary	18,000
Private Primary	700
Total	18,700
Public Secondary	3,400
Private Secondary	300
Total	3,700
Public Universities	6
Private Universities	7
Total	13
Public Teaching Colleges	21
Private Teaching Colleges	8
Total	29

In a move criticized as being motivated by the impending presidential election, the president of Kenya announced in late 2001 that public primary schools would no longer charge school fees. While some have praised the move as an effort to restore fairness to the education system and reduce inequality between rich and poor schools, no additional funding for public schools was announced to make up for the lost revenue. As a new school year began in January 2002, it was unclear how public schools would be able to accommodate the president's decree, and what impact, if any, this new policy would have on demand for private schools in Kenya.

2. The Okelos and the Early Years of Makini Schools

2.1 Mary Okelo

Mary Okelo was born Elizabeth Mary Awori in Busia, a small town along the Kenyan-Ugandan border. The 13th of 16 children, Mary credits her parents with instilling the family with a strong sense of purpose and opportunity. Her father, Jeremia Awori, was an Anglican minister whose missionary ties gave him a strong belief in the importance of education. All of her siblings were highly educated, attending top schools in several countries. As a teenager, Mary was one of only 13 Kenyan female students selected to participate in advanced preuniversity courses in a pilot program. Well aware that the future of this type of opportunity depended upon her performance, Mary recalls the enormous pressure: "We were told, 'If you fail, you have failed the country.'" Nonetheless, Mary excelled and was accepted into Kenya's elite Makarere University, where she studied history.

Mary at first seemed destined for a career in the public sector. After graduating, she decided to become a diplomat, but quickly found that the field was not to her taste. "I was too direct and. . . well, undiplomatic, maybe," she laughs. "I just felt I had to be myself." Searching around for a new career, Mary landed a job at Barclays Bank in Nairobi, where she became the first-ever African female management trainee. Once again, she felt the weight of a nation's expectations, but she credits her upbringing with giving her the confidence to persevere in the clubby, old boy's world of banking. "I wasn't going to give them a chance to dismiss me just on the basis of gender," she asserts. Barclays was impressed with the new hire and sent her to London for training. Again facing difficulties with culture shock and discrimination, Mary kept her focus and won her colleagues' respect. "We were taught to rise above petty things," she says now. "If you spend all your time worrying about that, you won't do all that you want to do."

Despite her focus, Mary did find distractions in London. One was an electrical engineering student named Pius Okelo, who was pursuing a PhD at Imperial College. The two were married in 1968, in a London wedding attended by several of her siblings. At the time, Barclays management was concerned that she might become a homemaker and the bank would lose its investment. “They were also not amused when I had a baby,” she says today with a mischievous smile. Mary refused, however, to abandon her career. Striking a balance between her work and home life, Mary stayed on at Barclays and eventually moved back to Kenya with her husband and child in 1970.

Back in Nairobi, Mary continued to rise through the ranks at Barclays, eventually becoming the first African woman ever to be named a branch manager. Coworkers praised her unassuming manner, strong empathy and thorough leadership. “Everyone wanted to work for her,” says Zachary Omukala, a branch manager today at Barclays and a colleague of Mary’s from those days. More promotions followed, and Mary climbed the ranks of Barclays in Kenya. As she approached the upper tiers of the bank’s administration, however, the internal politics and power struggles were beginning to take their toll. By the late 1970s, Mary grew interested in education as a respite from the pressures of the financial world. She frequently visited an acquaintance who had recently opened one of Kenya’s first private primary schools. As she says, “I used to go to her school to get away from banking . . . as a release.” Struck by Mary’s passion for the field, the friend advised her to become an educator. “She told me, ‘Since you love children so much, why don’t you start a school? It’s a good business.’”

At the time, private schools were a rarity in Kenya, as most families were content with the public education provided by the Kenyan government. The Okelos, however, had noticed a troubling deterioration of education beginning to take place in the public schools. They suspected that the education environment was about to undergo serious changes and felt that private schools would become increasingly important in Kenya. “You could see an explosion of children coming,” Mary commented. With this in mind, the two decided to open a small nursery school in their home. The school opened its doors in 1978 with just eight students and was conceived of as a side business to complement the Okelos’ careers in banking and construction engineering.

2.2. Makini Schools (1978–92)

The nursery school established in 1978 in the Okelos’ home grew steadily throughout the 1980s. Parents often requested that the school add a new grade so that their children would not have to graduate and go to another school. “They would tell us, ‘We’re not leaving!’” laughs Pius. In 1980, the Okelos purchased property nearby, and in 1982 they erected a building to house the growing school. In 1985, a milestone was reached when grade 8 was added. With the primary levels all in place, no new grades were added for more than 10 years, but the student body continued to expand, reaching approximately 400 students by 1989.

Neither Pius nor Mary devoted themselves full-time to the school during this period, as it was small enough to be managed by a senior teacher without suffering from their absence. Pius had left a university teaching position in 1978 and founded an engineering consulting practice, where he worked full-time. Mary continued working full-time at Barclays Bank until 1985, when the bank gave her paid leave to serve as the first African regional representative of Women's World Banking (WWB), an international microfinance institution promoting female microbusinesses in the developing world. Mary's involvement in WWB had begun when she founded the Kenyan microfinance affiliate of WWB, Kenya Women Finance Trust, in the early 1980s. In 1987, Mary moved to Abidjan, Côte d'Ivoire, for a three-year period to become senior adviser to the president of the African Development Bank. During this time, Pius was in charge of the day-to-day management of the school's operations and finances.

In 1992, Mary returned to Nairobi and decided to devote herself full-time to managing and expanding the school in the role of executive director. Pius took on the role of chairman of the board of directors. Around this time, the school also broke into the top 20 primary schools in Nairobi, as ranked by KCPE test scores. The result was a large increase in the number of parents interested in enrolling their children in the Makini School. Increased participation on the part of the Okelos and exploding demand set the stage for much more rapid expansion.

2.3. Makini Schools (1992–98)

The 1990s were boom times for Makini. Between 1992 and 1997, 200 new students were added to the school each year, yet demand for spots outpaced even this rapid growth rate. Property near the existing properties was acquired, and new buildings were constructed. Grades K–2, 3–5 and 6–8 soon occupied separate buildings within walking distance of one another. The Makini School became Makini Schools—Makini Lower Primary School, Makini Middle Primary School and Makini Upper Primary School—each with its own headmaster or headmistress. By 1997, the three schools were educating approximately 1,600 students, up from 400 students at the end of the 1980s. Still, the schools maintained a close-knit feel, with Mary a ubiquitous presence at all three.

Demand was fueled by word of mouth, as well as by Makini's rising standing in the KCPE rankings. In 1998, the Makini Upper Primary School grabbed first place in the KCPE rankings in Nairobi for the first time. This made it official: Makini Schools had the best primary school in the nation's capital. Makini has stayed at the top of the rankings ever since.

Mary's presence at the schools, beginning in the early 1990s, played a key part in their success. Unlike the stereotype of a banker, Mary is seen as a passionate and inspirational leader by teachers, parents and children alike. This enables her to motivate employees and students to achieve things they did not think were possible. Still, Mary is far from a firebrand and tempers her passion with an empathetic and approachable manner. Employees at all levels say they feel comfortable stopping by her office and talking with her about problems they face, whether small or large, business-related or personal. Mary makes herself even more approachable by attempting to get to know every student, as well as most of the parents. She says: "I meet every child and recognize them by face, and usually by name. As I get busier, this is one part of my job that I will not give up." If Mary sees someone on the school grounds who looks like a parent, she will immediately approach and greet the person. This kind of customer focus sets an example for all of her employees. A former colleague notes that while Mary has excellent financial skills from her days as a banker, "her biggest strength is people management." He adds, "She has what it takes: she is focused, assertive, a team player, nonassuming—but can be aggressive when the need arises in order to achieve her goals."

Everyone around Mary notes, too, that she insists on absolute quality. When asked to describe Mary Okelo's management style, one member of the Makini team suggests "thorough." Mary is also not unwilling to fire teachers who fail to improve and demands that every aspect of the school live up to her high standards. One former colleague notes, "All her teaching staff and students are selected on merit."

Finally, Mary's history of firsts—member of the first female class in the Kenyan preuniversity program, first female Kenyan manager at Barclays Bank, founder of Kenya's first microfinance organization, first female senior adviser to the president of the African Development Bank, founder of the first high-quality Kenyan private school directed at middle-class Kenyans—increases the prestige of Makini Schools. As one former colleague notes, "She is very well regarded in Kenyan society."

3. Makini Expands to Secondary School

3.1 The Decision

The rapid growth of Makini Schools during the first half of the 1990s caused growing pains but led to no major crises. All of the expansion had been limited to primary school education. With the country facing an urgent need for additional secondary schools, however, the Okelos felt pressure to expand into secondary education. Any move into this area would involve serious complications. The biggest challenge when expanding the primary schools had been finding enough space for classrooms. A move into secondary education, though, would require a much greater financial commitment due to required investments in up-to-date science laboratories, an advanced library and athletic facilities, among other things. Teachers who could handle older children and who had greater specialization would also cost more than their primary school counterparts. The building of the Makini primary schools had been a progressive process, with new space added as needed. It was clear, however, that a whole new complex would need to be built at one time to accommodate a secondary school. Given the unpredictable economic and political climate in Kenya, such a move would amount to a giant leap of faith.

When the Okelos discussed the expansion, Mary was initially opposed to the idea. She feared that the huge initial investment, an upward constraint on fees due to the limited resources of Kenyan parents and competition from the partially subsidized "national" secondary schools would severely limit the potential return on investment. Mary felt that expanding to secondary schooling would not be as profitable as simply continuing to expand the primary schools and that expansion into secondary schooling would potentially jeopardize their existing business. In her experience, returns on investing were 18–20 percent in additional preschool capacity and were 15–18 percent in additional primary school capacity. She thought that returns on investing in a secondary school would be, at most, 12–15 percent—about the same as those offered by risk-free Kenyan treasury securities! "From a financial point of view, it just wasn't a good idea," she maintains. Yet Pius remained convinced that secondary education was the next logical step for Makini Schools. In the mid-'90s, as increasing numbers of students could not find space in any secondary school, Mary had a change of heart. Although she still considered the move risky, she agreed that "as a contribution to national education, [expanding to secondary education] was the way to go."

The Okelos planned to offer a preuniversity International Baccalaureate (IB) curriculum at the same location as the secondary school. Such a program allows students to complete two additional postsecondary years of schooling in order to prepare themselves for study at foreign universities. From the beginning, the IB program was to serve the dual purpose of increasing the prestige of the Makini name as well as attracting students from neighboring countries.

3.2 New Loans

Mary's career at Barclays had laid the foundation for a fruitful source of financing for all of Makini's banking needs as the school went through its primary-school expansion. For the new secondary school, the Okelos were forced to look for a larger sum of money and for longer-term financing than they had previously needed. Because Kenya did not have very mature capital markets, the options appeared limited. But, in a display of resourcefulness, Mary tapped an unlikely source: the International Financial Corporation (IFC), a division of the World Bank that lends to the private sector in emerging markets.

The regional office of the IFC had been set up in Nairobi only one year earlier, 1995. The office's mission was defined by the recently conceived "Africa Enterprise Fund," an attempt to fill the need of budding entrepreneurs in Africa for long-term financing—that is, loans for terms greater than two years. The Okelos approached the IFC with their plans for the secondary school after having designed a comprehensive curriculum and found appropriate land for the new complex in Langata, a suburb just outside of Nairobi, approximately 25 minutes by car from the city center. The IFC was impressed with Makini's track record and, after some due diligence, approved funding for the project in 1996. Current IFC loan officer Aida Kimemia says the approval of the $545,000 loan was driven by three important assumptions: First, strong demand for quality education at Makini's prices would continue throughout the latter half of the '90s. Second, the Kenyan shilling would remain stable against the U.S. dollar. Third, the International Baccalaureate program at the new secondary school would enroll a sufficient number of international students paying their fees in U.S. dollars to cover the dollar-denominated interest and principal payments to the IFC. This would then serve as a natural hedge in case the Kenyan shilling devalued against the U.S. dollar.

In addition to the IFC funding, the Okelos took out loans from Barclays Bank to cover construction costs. They paid for the land in Langata with cash from their own savings and the school's retained earnings, and then used the land as collateral for the loans from Barclays.

3.3 The Launch

As construction got under way in 1997, the secondary-school program was launched for a small group of children in classrooms at the then-existing location in Nairobi. By the beginning of the 1998 school year, construction was far enough along at Langata for the secondary school to move to its new location and for the International Baccalaureate (IB) program to be officially launched. In 1999, the Okelos also launched a small primary school in one of the buildings at Langata to accommodate parents who did not want to bus their children from the Langata area to the existing primary schools in the city. The new Makini Academy at Langata, as it was called, now consisted of three distinct schools, including the IB program.

The opening of this facility in 1998 fueled the fastest growth in the history of the Makini Schools. Between 1997 and 1999, Makini Schools's revenues grew by an astonishing 90 percent! Still, in hindsight it is clear that this growth caused severe strains on the enterprise as well as its owners.

3.4 Economic Shocks and Other Unforeseen Events

The new secondary program faced difficulties almost from the very start. The Kenyan economy had grown in excess of 4 percent annually from 1994 through 1996, but the economic climate began to weaken in 1997. Real GDP growth fell to 2.3 percent in 1997 and further slowed to 1.6 percent in 1998, to 1.3 percent in 1999 and to slightly below 0 in 2000. With the population increasing by 2.6 percent per annum, this reduction in economic growth led to a deterioration in per capita income and to rising poverty and unemployment. Several factors contributed to the economic falloff: The end of apartheid in South Africa created new competition for Kenya's large tourism industry. Drought in the first quarter of 1997 and the El Niño rains toward the end of the year destroyed food and cash-crop production. Public infrastructure was neglected in this period, causing deterioration of roads, the water supply, telephones, sanitation and the electricity supply. This in turn increased manufacturing costs in Kenya both for domestic consumption and for export. Corruption in Kenya became ever more entrenched in the late 1990s. International financial markets charged large premiums for the uncertainty associated with corruption, and, as a consequence, drove up the cost of capital in Kenya: real interest rates for commercial loans swelled to between 16 and 22 percent during this time, further depressing investment. Finally, the Asian financial crisis in 1998 exacerbated investor flight from Kenya and other emerging markets.

Amid this weakening economic environment, the Kenyan public-sector budget deficit became increasingly untenable. This necessitated retrenchment of government workers, increasing unemployment rolls and contributing to further reductions in public services. In a country where 50 percent of the population lives on less than $1 a day, the cutbacks caused an explosion of people who were forced to live in Kenya's sprawling slums. Wars in Somalia and the Sudan had also fueled a large black market in firearms, which found their way into the hands of a rising criminal class in Kenya. Nairobi and other urban areas became increasingly unsafe, earning the capital the sobriquet "Nairobbery." In the late 1990s, reports of increasing crime scared away international tourists, reducing the country's most important source of foreign exchange. The result was a steep decline in the value of the Kenyan shilling, which in 1997 fell from 59 to 79 shillings to the U.S. dollar. This caused imports to become more expensive and fueled inflation.

These economic developments wreaked havoc on the three assumptions under which the IFC loan had been granted to Makini Schools. First, although the IFC had considered Makini's projected 5 percent annual growth in students and revenues to be conservative, the middle-class population that Makini was counting on to fuel this growth was severely affected by Kenya's economic problems and government retrenchment. As a consequence, growth from 1997 through 2000 was much less than 5 percent per year, and in 2000 enrollment actually declined for the first time. The percentage of parents paying their fees late or not at all jumped from 2 percent to 10–15 percent. Second, all World Bank and IFC loans are denominated in dollars and must be repaid in dollars. This included those made to Makini, even though the schools' revenues are in Kenyan shillings. Devaluation of the currency increased the cost of regular loan repayments to the IFC by 34 percent almost overnight. Third, the increasing crime levels in Kenya and Nairobi in particular scared away the international IB students that the Okelos had been counting on for precious U.S. dollars. Instead of the expected 40 international IB students, only five enrolled.

Other events also took their toll on the business. The construction site in Langata proved to be riddled with a type of soil called "black cotton," which is impossible to build upon. All of this had to be removed, leading to cost overruns before the first brick was even laid. The deteriorating roads in Nairobi took a toll on the schools' buses, and by 2000, a large outlay of cash to purchase new vehicles was unavoidable. The power infrastructure in Kenya began to fail in 2000, leading to the rationing of electricity for 12 hours per day for six months. Makini Schools was obliged to spend precious money to buy generators. Finally, HIV/AIDS became a major health crisis in Kenya and throughout sub-Saharan Africa as the 1990s came to a close. For Makini Schools, this led to a rising incidence of parent mortality from AIDS. The Okelos attempted to address the situation by providing scholarships to students who lost parents, which imposed an additional burden on the school's already tight finances. By early 2000, Makini Schools was burdened with massive debt and was facing default.

3.5 Riding Out the Storm

After 20 consecutive years of growth at Makini, the above factors came to a head in 2000 and tested the Okelos as never before. The overruns at Langata, lower-than-expected revenues across the board and the realities of a depressed economy forced the Okelos to switch to crisis mode. All unnecessary expenses were cut back. The Okelos refused, however, to reduce the core resources, such as teachers or school supplies, needed for education itself.

Throughout this period, the Okelos managed their cash flow very tightly. Mary acted as the school's chief financial officer and attempted to ensure that purchases were kept to a minimum. The Okelos also petitioned the IFC to restructure their IFC debt load. Loan officer Aida Kimemia recalls, "The decisive factor in whether or not to restructure the loan was whether the problems they were facing were related to the structure of their core business or were just a 'blip on the radar screen' related to external factors. It was clear to us that this was a 'blip' related to the extreme external problems rather than mismanagement on their part." After negotiations with the Okelos, the IFC granted Makini Schools a one-year moratorium on principal payments but insisted that the Okelos pay interest during this time.

The Okelos also sought to restructure the loans from Barclays Bank that were used to finance working capital throughout the year. Cash typically came into the business three times a year: with the beginning of the school term in January, May and September. As a result, the schools often ran out of cash toward the end of each term. The credit product from Barclays Bank was not matched well to the needs of the schools, as the money was provided as a term loan on which the Okelos paid interest throughout the year, even though they only needed it during those three times of cash shortfall. Barclays Bank was resistant, however, to the Okelos' request to expand their small line of credit to a size large enough to cover the shortfalls and replace the term loan entirely. Eventually, Mary broke off negotiations with her former employer and established a new banking relationship with the Investment & Mortgage Bank. Despite Mary's long relationship with Barclays, she felt it was important to go to a bank that would meet the schools' credit needs during this very difficult time.

Makini Schools was also forced to trim some of its operations. The Okelos had started a small technical college near the city center around the time that they launched the secondary school. This college was successful in terms of enrollment, but it never generated significant amounts of cash because of the expensive teachers' salaries and other resources needed to run a technical college. As a result, the Okelos decided to close the college, and in late 2001 they prepared to recycle the property into a small primary school—their core competency. This move would replace a business that was generating no excess cash with a one that would generate cash from day 1.

Incredibly, despite all these challenges, the quality of education in the Makini schools never suffered. In 2000—the school's toughest year ever—Makini students once again captured the number 1 position in Nairobi on KCPE test scores. In 2001, the Kenyan economy began to recover, and enrollment picked up again both at the primary schools and the secondary school. After the harrowing experience of facing a financial disaster, the Okelos sensed they were finally in calmer waters.

4. Challenges Overcome, Challenges Still Ahead

4.1. Makini Schools's Success

Several factors contributed to Makini's success in its first 20 years:

4.1.1. First-Mover Advantage

The Okelos recognized in 1978, long before others, that demand would grow for high-quality private schools in Kenya because of the declining quality of the public schools. As most of their private-school competitors were founded several years after this, the Okelos had several years to build Makini's core staff and cement their brand before facing strong competitive challenges.

4.1.2. Financing

With her experience at Barclays Bank, Mary Okelo was able to facilitate what for many entrepreneurs is the most challenging part of starting a new business: getting bank financing. Mary had connections at the bank and knew how to write a "bankable" loan application. Still, this did not spare the Okelos from having to provide 100 percent collateral for the loans with land that they owned. Nor did this spare them from having to sign multiple personal guarantees for the loans. Still, all in all Makini Schools did not face significant difficulties in securing financing.

4.1.3. Teaching Staff

Makini Schools actively seeks the best teachers in Kenya. Because it is private, Makini has more leeway than its public-sector counterparts in firing subpar teachers and filling those positions with superior performers. Great teachers are also paid a premium for working at a Makini school. The schools' 150 teachers receive 40,000 shilling a month (U.S.$500), which is well in excess of what teachers make at public and even competing private schools. This creates high morale and a motivated workforce.

4.1.4. Learning Environment and Resources

The extensive building of new classroom space in the 1990s meant that such amenities as a swimming pool or music room could not be built. Investments were made in other resources, however, that contributed directly to the academic learning environment. Each school has an excellent library, stocked with thousands of books. The classrooms are similarly well maintained and supplied. While funding laboratories has been a challenge, Makini maintains several well-functioning facilities. Makini Schools was the first in Nairobi to invest in computer labs, and computer instruction begins at the nursery school or first-grade level. Finally, the buildings themselves are decorated with murals, and the grounds are well manicured, creating a bright and cheerful surrounding for the children.

4.1.5. Customer Focus

One distinguishing feature of Makini Schools is the emphasis on customer satisfaction. An alumnus noted that teachers do not allow students to fall behind; they immediately notice poor work or lack of motivation. Parents are encouraged to be highly involved in school activities and are enlisted for help in disciplinary matters. Teachers and administrators are encouraged to communicate as frequently as possible with every parent. Corporal punishment is not allowed.

4.1.6. Affordability

Tuition at the Makini schools ranges between 16,500 and 23,500 Kenyan shilling per term in 2002, depending on grade level. Transportation and meals cost approximately 10,000 shilling per term more. The cost to a family with one child attending a Makini school is therefore between 90,000 and 100,000 shilling per year, or approximately U.S.$1,200. Given the current distribution of incomes in Kenya, this prices Makini Schools out of the reach of all but the top 10–20 percent of families in Nairobi. Nevertheless, compared to some other top-tier private schools in Nairobi, the Makini schools are somewhat of a bargain. Top private schools catering to elite members of Kenyan society typically charge between 300,000 and 600,000 shilling per year, or between U.S.$3,800 and U.S.$7,600—three to six times as much. These are vast sums in Kenya, where half of the population lives on less than U.S.$1 a day.

4.1.7. Management

The Okelos' strong management skills have also been key ingredients in Makini Schools's success. Mary is both approachable and inspiring, and her passion is contagious. She insists on absolute quality and is very detail-oriented. Mary has also assembled a strong and competent management team around her. While there are some holes in this team, it is committed to the ideal of excellence set forth by Mary and is quite effective.

While not as actively involved in the affairs of the students, Pius has brought business experience and engineering expertise to the Makini organization. He supervised construction of the schools' new buildings and as chairman of the board maintains a prominent role in managing the schools' finances and strategy for the future. He is truly an equal partner in the enterprise that is Makini Schools.

4.2. Resisting Corruption

An additional notable element of Makini Schools's success has been the Okelos' ability to resist becoming embroiled in the political pressures and corruption that are common in developing countries. "The Makini Schools is an example of how decent people can succeed in the third world," says Arun Mathur of Kenya's Investment & Mortgage Bank, which has helped finance the enterprise. Mathur credits the Okelos for resisting the temptation to become politicians themselves, which successful businesspeople in Kenya are sometimes obliged to do in order to protect their enterprises. Nonetheless, the Okelos' efforts to remain above the fray have not always gone unchallenged. Aware of the schools' profitability, politicians have at times approached the Okelos, seeking to acquire an ownership stake in the schools. Similarly, because of their refusal to engage in corruption, Makini Schools has had difficulty acquiring land at the reduced "education" prices set by the government and has been obliged to pay market prices.

On a more everyday level, the schools have had problems with police officers stopping the school buses in the hope of receiving bribes. To combat this, the school has been obliged to waste valuable time and resources fighting the trumped-up charges in court. The Okelos, however, make it clear that they are willing to do what it takes to keep their reputation unsullied. “We have made a choice to do business in an honest manner at all costs,” says Mary. “It’s expensive, sometimes it’s very frustrating, but you don’t struggle with something dearly for almost a quarter of a century and then give it all away.” Pius agrees: “I would rather leave a legacy of Makini than a legacy of a million dollars,” he says simply.

4.3. Succession

The Okelos want to maintain Makini Schools as a family business. In January 2002, the firm was still wholly owned by Mary and Pius, just as it had been 20 years before. They have three children to take over the reins of the business: Joseph, who works in human resources for Cargill (an American energy company) in Kenya; Lawrence, who is an engineer by training but who heads an auditing team for British American Tobacco in Nigeria; and Claire Niala, who is finishing her university studies in Osteopathic Medicine and Naturopathy. Mary and Pius have always kept their children updated on the issues and challenges facing Makini Schools. Their children have also expressed interest in becoming a part of the family business. Joseph commented, “I have other interests, but I feel a duty to the family business.” The exact timetable for the children returning to work full-time for the family business is uncertain, and, as with any succession, there are some concerns. One son worried about having a “clearly defined role” in a situation with the continuing involvement of his parents as well as other siblings. The Okelo children, while extremely respectful of all their parents have accomplished, also express a willingness to explore a wide range of options with Makini Schools in the future.

Finally, as one considers the issue of succession, one must wonder if Makini would lose a key part of what has made its schools distinctive and successful if Mary Okelo were no longer executive director. Her charismatic personality has become so much a part of Makini Schools over the last decade that it is hard to imagine it without her. Nevertheless, the true test of a family business—or any business—is whether or not that business can live and breathe on its own without the intimate involvement of the founder.

4.4. Long-term Strategy

Along with questions surrounding succession, there was also uncertainty surrounding the long-term strategy for the business. While the Okelos’ immediate goal was to pay down their debt burden, there were several possible long-term strategies.

4.4.1. Consolidation

One option going forward was to keep the schools at the existing size and not add any new Makini schools. Management attention and capital could be focused instead on consolidating the position of the existing schools. This was an attractive option for the Okelos: they would be able to invest in amenities that were not addressed in the frenetic rush to build more classroom space over the last 10 years. Such amenities could include things like swimming pools, music rooms, art studios and language labs. The Okelos could also focus attention on rounding out their management team. Currently, they lacked a chief financial officer, among other positions, which left the Okelos wearing too many hats. One question, though, was whether the management team should be rounded out before the Okelos' children came on board, or whether their children would be brought on specifically to fill some of these roles.

4.4.2. Incremental Expansion

The Okelos could pursue a policy of incremental expansion, opening satellite locations similar to the primary school recently opened near the city center. Currently, Makini buses bring students from all over Nairobi to the existing locations. Transportation costs could be reduced, and parents would be happier if their children could attend a Makini branch closer to home. The rich suburbs on the northern edge of Nairobi near the United Nations Environmental Program complex were a particularly attractive area to put a Makini school. Many students were bused from this neighborhood already, and many families in the area whose children attended other schools would probably consider sending their children to a Makini school closer at hand. Perhaps the biggest obstacle to expanding here, though, was acquiring land. This was made especially difficult by the Okelos' refusal to pay bribes or engage in other sorts of quid pro quo deals necessary to grease the wheels of the city bureaucracy. Another consideration was whether or not it would ever be possible to create another secondary school if they pursued a strictly incremental growth strategy—primary school branches are much easier to add incrementally than are secondary schools.

4.4.3. Aggressive Expansion

The Makini brand name had grown into a strong one, and there were some who believed that this strength should be leveraged throughout a larger network of schools on a national or even international level throughout East Africa. Such an aggressive expansion would demand significant new capital and management resources.

In Kenya, one is struck by what many refer to as the "missing middle": the absence of a significant number of prospering medium-sized companies, compared to numerous small family-owned businesses on the one hand and large multinational subsidiaries and formerly state-owned enterprises on the other. This is due in part to the absence of healthy capital markets for funding firm growth. However, there also seems to be cultural barriers to firm growth in Kenya (as well as other African countries). Once their businesses generate enough cash flow to support them in a comfortable lifestyle, individual entrepreneurs or families are often content with the business as it is and cease growing their firms. They are also reluctant to bring in outside investors, because that would require giving up some degree of control over their businesses. Capital and expertise from outside investors—much less a willingness to grow in the first place—are, however, needed to fuel growth, especially aggressive growth.

By some definitions of medium-sized, Makini Schools in 2002 was already there. But by other definitions, it was just on the threshold, and further growth fueled by outside investment would be needed to cross that threshold. Mary was afraid, however, that quality might suffer if the school became too much larger than its present size. She had considered bringing in outside investors before, but the preferred returns in excess of 40 percent per year made the cost of doing so "prohibitive." Joseph also pointed out that "Cargill, where I work, is a multibillion dollar international company, but it is still family-owned." Still, it is hard to imagine Makini Schools pursuing an aggressive growth strategy without significant outside investment from equity partners.

4.4.4. Makini Franchises

One potential way to solve the growth/outside investment conundrum would be to move to a franchise model. With this long-term strategy, the Okelos could maintain full ownership of their existing schools but partner with franchises to open up new schools. Franchisees would raise the necessary capital and provide the management for the new schools. The Makini corporate parent would provide training, the curriculum structure, administrative support and its all-important brand name in exchange for base fees and some formula for profit sharing.

In some ways, Mary was already pursuing this strategy informally. Many teachers and administrators had left Makini Schools to found their own private schools. Far from viewing these people as competition, Mary had provided pro bono consulting and guidance to these founders. A franchise arrangement would formalize this activity and provide a financial return to Makini Schools. One could imagine the Okelos' children taking over the day-to-day management of the original schools, while Mary focused on training and mentoring franchisees in Nairobi and elsewhere. Still, a major obstacle to a franchise strategy in Kenya was the poor legal enforcement of contracts, which might make it difficult to take action against a franchisee who failed to live up to his or her obligations.

4.4.5. Association of Private Schools

Finally, the Okelos could potentially concentrate more energy on fulfilling the potential of the Nairobi Association of Private Schools, which had been established earlier. Pius had served as the chairman of this organization for several years. The association had made initial steps to leverage the scale of the private schools as a group to purchase textbooks and other supplies. Politics and competition among the schools, however, had ended that attempt prematurely. Still, the association had been successful recently in opposing a government initiative to require that no more than 15 percent of the students of the elite national secondary schools come from private primary schools. This new rule would have crippled the Makini schools and other private schools, since parents see private schools as the best preparation for the KCPE test, which has been the sole determinant of who gains admittance to Kenya's elite secondary schools. Fresh from this victory, perhaps private schools would be ready to renew cooperation and ties via the association. Some people had suggested that a consortium of private schools, perhaps even the association itself, could pool resources and know-how to found a new private university in Kenya. As the Okelos' experience with just one small private technical college had shown, expanding to the university level was too difficult and expensive for one school to do alone.

5. Conclusion: Makini's Future?

As Mary gazed out the window smiling at happy schoolchildren, she could not help but take pride in all that had been accomplished. Still, what was the best long-term strategy for Makini Schools? What role could her children play, and how soon? In the short term, reducing Makini Schools's debt would put the business on surer financial footing. Lower principal and interest payments would also free up cash flow so that she could bring her children onboard full-time at a reasonable salary level. But what should happen then? Should they focus on consolidating what they have, or consider growth via incremental or aggressive expansion, via franchises or via the association with other private schools? Mary was pulled both ways. While she recognized that continued expansion would help to address an important social need and would potentially result in financial gain, she was also very clear about the risks—indeed, the recent secondary school expansion had made these risks all too clear.

Foreign investors liked to group these risks broadly under the heading "country risk"—that is, the risk that a developing country's currency would devalue, the risk of political instability, the risk of government expropriation, etc. For those foreign investors, this risk usually affected one investment in a portfolio of investments. But for Mary, as an entrepreneur in a developing country, country risk affected the very survival of her business as well as her family's livelihood. As her husband had recently observed: "It has taken 25 years to build up to our size, but it can take five years to drop down to 100 students."

Given the high stakes, what was the proper course for the future?