Scaling Micro Finance Organisations Sustainably – HR Learnings from Other Industries

Vandana Nadig Nair[1]

Abstract

Micro finance institutions (MFIs) are experiencing hyper growth. As they scale up, they are confronted with challenges in terms of inadequate organisational capacity and people capability. Of particular significance are issues in four areas that are critical to help these organisations scale in a sustainable manner. This article focuses on some of the key challenges that MFIs are confronting with respect to recruitment, training, incentive and retention. Drawing from examples and best practices of other organisations, the article highlights key learnings from other domains/sectors which MFIs can leverage to jumpstart their own competence and capability building process.

Keywords: *Micro Finance, HR Challenges, Best Practices*

Introduction

Augmenting organisational capacity is an industry-wide concern in micro finance today. Do we have the right organisational structure in place? Is our Management: Field staff ratio appropriate? How do we raise field force productivity? How do we deploy skill-building initiatives across all our branches in a consistent and impactful manner? What incentive structure/ mechanism will work best for my team? How do I ensure that each member of the organisation is aligned to the vision and our customers? These are questions that any organisation experiencing hyper growth confronts. Also, these are some of the pressing people-related issues that are plaguing most micro finance organisations today. These organisations are in a growth mode – MFIs have reported growth in outstanding portfolio at a CAGR (cumulative annual growth rate) of 80% and ROE (return on equity) of 30% between 2003 and 2008. According to the companies and markets (2008) microfinance industry report and Microfinance Information Exchange and Intellecap (2008), the Indian MFI market was around $1.5 billion with a penetration of around 10% while the overall market size is estimated to be

[1] **Dr. Vandana Nadig Nair is a founder of CoCoon Consultant, Founder Director of Phicus Social Solutions and co-founder of ElderAid Wellnes Pvt. Ltd. Email: vnn@ cacoonsonsulting.com**

as high as $50 billion. These organisations are either single state operations looking to deepen their business in that state (e.g. Equitas or Madura Microfinance in Tamil Nadu), or a strong player in one state and looking to become a regional player (e.g. Grameen Financial Services) or pan-India organisations that are looking to expand their national footprint (e.g. SKS and Ujjivan).

Despite variations in size and scale of operations, their concerns are largely similar. They have all reached junctures in their growth journeys where the inadequacy of organisational capacity in terms of established systems and processes and leadership capacity is threatening to impede growth. Some of the key growth-related challenges these organisations are confronting stem from the following:

- *Rapid expansion across wide geographies, spanning rural and urban divides:* As mentioned earlier, these organisations are multiplying rapidly, growing across regions, states, cities, towns and also reaching villages. There is a need for developing a scaling-up and capacity building strategy. The analogy of what several of these organisations is attempting is not very different from 'building your car as you are driving it'.
- *Young and diverse workforce at the base of the pyramid:* In addition to employing a very young field force, there are also marked differences in the workforce stemming from local, cultural influences. This creates its own set of issues in terms of people management.
- *Transition from a founder-organisation to a professionally managed organization:* Several micro finance organisations have been started by passionate and visionary founders who believed in and wanted to make a difference to the lives of the economically impoverished. As these organisations have grown, they are bringing professionals on board to augment the management team. An increasing trend, one can witness are professionals from mainstream organisations who are transitioning to micro finance organisations. Issues such as team amalgamation, compensation, parity (or not, with other industries), etc. have become important.
- *Change in the organisation constitution from an NGO to an NBFC:* Smith (2006) conducted a detailed study of three Indian MFIs namely; SHARE Microfin, BASIX Finance, and SKS, who have transformed from NGOs to NBFCs (non-banking financial corporations). The financial

analysis of theses case studies showed positive benefits of becoming an NBFC, such as greater profitability, greater access to commercial sources of funding, and therefore greater outreach in terms of loan portfolio size and clients reached. From an overall organisational standpoint, the transformation led to heightened transparency and efficiency in systems. There are factions who contest that this NGO to NBFC transformation could have a negative impact on the company's objective of poverty alleviation. However, this study did not find any evidence to support it.

- *Infusion of private equity in the sector:* Private equity fund in the sector has grown by 242% in 2008-09. This has created a heightened need for greater transparency (for which standardised systems and processes in all spheres are critical) and structural changes. Further, there is a large interest in ensuring sustainability of the organisation and hence a need for focus on leadership, talent pipeline and succession planning. The mainstay of microfinance organisations, as is true of most other service organisations, is its people. Such dramatic growth has also led to certain people challenges, which need to be addressed in order to help the MFI grow in a sustainable manner.
- *Structure rationalisation and increase in productivity:* Many MFIs have an interesting structural problem. For instance, their field staff to supervisor ratio is very high (60:40). Further, at the loan officer level, the client coverage per field officer (411 in 2008) and average loan portfolio (Rs. 1.9 million) per officer is rather low. There is therefore a need to work at both issues in parallel namely: (a) Drive higher productivity at the loan officer level and (b) rationalise the *supervisory level and explore innovations in the structure.*
- *Scaling the organisation:* There is a pronounced need in the sector to build organisational capacity to proactively prepare for and meet growth-related challenges. This includes the need for rigorous and standardised systems and processes in all realms (operations, HR, audit and accounts), strategic planning, governance structures and resource plans.
- *Building a leadership pipeline:* Some of the larger MFIs are waking up to the need to grow a leadership pipeline internally. However, the vast majority of them are still exclusively looking to hire laterally to solve the problem, at least in the short term.

- *Capability building:* Building relevant skills in terms of process knowledge, customer interaction skills and so on is critical for this Industry. However, most organisations have not been able to make much headway on this front beyond orientation training. The geographical spread and the field nature of operations make training even more challenging.
- *Organisational culture:* There is a strong, ongoing debate in the sector of how MFIs achieve their twin objectives of performing well as a business and doing good to the client group they service. Additionally, given the cross-section of employees, most MFIs have divides based on regions, rural-urban, etc and hence there is need to drive a strong consistent culture. Finally, while the clients are primarily women (93%), in many instances, the MFI staff members are typically men. There needs to be significant sensitisation of the field staff to the social, economic and cultural milieu of the clients and a strong communication of the need to treat their customers with respect and dignity.

The FICCI (Federation of Indian Chambers of Commerce and Industry) has recognised the importance of the need for a robust HR system and organisational culture by hosting a two-day workshop in early 2010 for senior leaders and heads of HR from micro finance organisations to highlight the criticality of having strong HR systems to scale organisations. While challenges abound, the micro finance industry has a great opportunity to learn from the experiences of other more mature industries such as IT, IT-enabled services/ BPO companies, FMCG, banking, insurance and other financial services organisations that have at some point in their growth experienced similar challenges. For instance: What are the lessons that MFIs can learn from large field-based organisations such as FMCG/insurance from a structure and capability building perspective? How can they increase productivity of the field force? What are work flow improvements they can explore in terms of segregated field vs. backend operations? What are the perils of resourcing all positions internally? When should the organisation explore outsourcing? For instance, the BPO sector scaled up its internal training teams during the growth phase and IT companies did likewise, building huge armies of recruitment staff during their growth spurts. However, what happens when the growth stabilises or when there is a downturn? How can MFIs build capability creatively by leveraging technology? Are there online mechanisms to deploy training over a large number of people? How can they learn from the BPO experience of building a process trainer pool from within as a rotational position to deliver training across their field staff?

Models already exist – whether it is to do mass hiring or build people capability at scale. This study attempts to join those dots by identifying the key issues being confronted by MFIs today from people and organisational capacity perspective and reviewing similar experiences and learnings of organisations in other industries and domains. The hope is that by looking outside, at best pracices of other organisations, MFOs (micro finance organisations) will be able to jump start their endeavours in building organisational and people capacity.

Evolution of Microfinance Globally and in India

Microfinance is a simple but powerful tool that enables the poor to lift themselves out of poverty. Most commonly, it involves providing small loans to the working poor in developing countries. These loans are usually less than $200 and are provided by local organisations called microfinance institutions. The loans are used by the working poor to establish or expand small businesses that generate additional income for the family. This extra income allows a poor family to buy food, access health care, educate their children, put aside savings and lay the foundation for a better future. Microfinance has emerged as an effective poverty alleviation tool because it is based on the fundamental principle that human beings are motivated to do whatever it takes to make them well off as much as possible. The vast majority of microfinance borrowers (84%) are women. This is partly because the majority of the world's unemployed are women and therefore there exists a natural market for microfinance services. Microfinance institutions also prefer women because they are more likely to repay their loans on time. In fact, many experts believe that empowering women is the key to ending poverty and its resulting social problems.

Prof. Mohammed Yunus, Nobel Peace Prize Winner (2006) is widely popular as the Father of Micro Finance. In 1974, when famine struck Bangladesh, Dr. Muhammad Yunus was a Professor of Economics at the University of Chittagong. Disillusioned by the elegant theories of economics that could not explain the thousands of poor people dying of starvation on the streets, he was determined to find a practical way to help the poor. During a visit to a nearby village, he was astounded to find that a sum of $27 could radically change the lives of 42 people in the village. This was the sum of money they collectively needed to buy bamboo to make the stools they sold to make a living. He took $27 from his pocket and provided 42 loans to the stool makers in this tiny village. They were able to pay him back with interest and take a step towards lifting themselves out of poverty. This simple idea that the poor could use credit to lift themselves out of poverty, led Dr.

Yunus to create the 'Grameen Rural Bank' in 1983. Since its inception, it has provided over $983 million in loans to over seven million borrowers. Its methodologies have become the cornerstone of the microfinance industry.

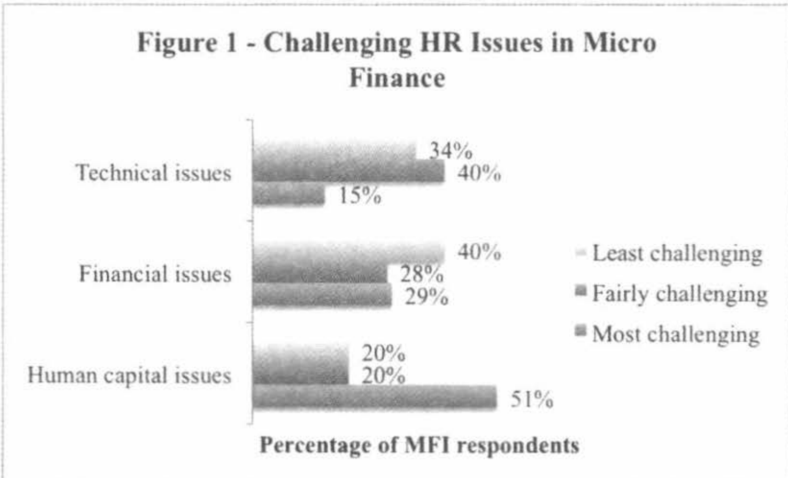
In the 1970s and 80s, inspired by Grameen's success, social innovators and organisations around the world began to experiment with different programmes to bring financial services to the poor. Microfinance institutions proved that it was actually possible to build viable businesses through lending to the poor. The number of microfinance institutions increased rapidly. The Microfinance Summit Campaign Report by Daley-Harris (2006) estimates that there are now more than 3,000 microfinance institutions, serving more than 100 million poor people in developing countries. The total cash turnover of these institutions worldwide is estimated at $2.5 billion. MFI outreach to the poorest families is only 38% in Asia, 8.5% in Africa and the Middle East, 11.6% in Latin America and the Caribbean and 1.7% in Europe and the NIS (new independent states). Therefore only a small minority of the estimated 2.6 billion people living on less than $2 a day has access to financial services (Latifee, 2006).

In India, there are four predominant models of micro finance organisations – one kind of MFI is an NGO engaged in promoting self-help groups (SHGs) and their federations at a cluster level and linking SHGs with banks under the scheme. A few examples are Myrada in Karnataka, which has promoted Sanghmitra, a company of its village saving and credit sanghas, Pradan which has established a large number of SHGs and federated them under Damodar in Bihar and Sakhi Samiti in Rajasthan. Second is the NGO-MFI directly lending to the poor borrowers, who are either organised into SHGs or into Grameen Bank type of groups after borrowing bulk funds from SIDBI, RMK and FWWB. Examples in this category are Rashtriya Gramin Vikas Nidhi (RGVN) which runs a credit and savings programme in Assam and Orissa on the lines of Grameen Bank, Bangladesh. Also we have SHARE in AP, ASA in Tamil Nadu under this category. The third model includes MFIs which are specifically organised as cooperatives such as over 500 mutually aided cooperative thrift and credit societies (MACTS) in Andhra Pradesh, promoted among others by Cooperative Development Foundation (CDF) and the SEWA Bank in Gujarat which also runs federations of SHGs in nine districts. Finally, the fourth category includes MFIs that are organised as NBFCs such as BASIX and SHARE Microfin Ltd.

HR Challenges in Microfinance Organisations

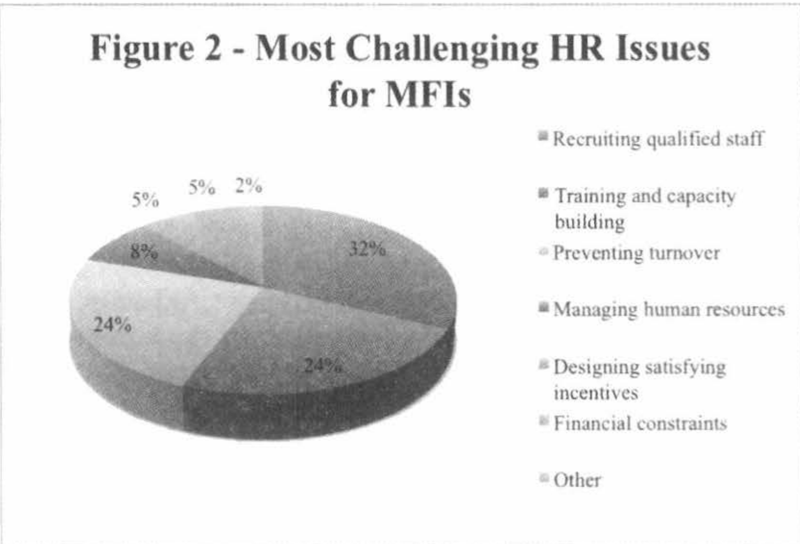
In this section, we present the findings/views of four different sources that have examined HR challenges and needs in the microfinance sector closely. Microfinance Insights (2008), a leading publication in the micro finance space conducted an online survey on human resource challenges and solutions in 2008. Ninety respondents from 31 countries responded to this survey. The majority of the respondents (64) were microfinance institutions (rural banks, large financial firms, and microcredit-focused NGOs) and the remaining (26) respondents were microfinance-focused consulting firms, recruiters, and venture capitalists. The survey sought responses about training, recruitment, incentive schemes and the gender gap in staffing and management positions. These organisations faced human capital, financial and technical problems; 51% rated human capital issues as the most challenging (See Figure 1). The survey asked the organisations to rate the various HR challenges according to their importance (See Figure 2).

Figure 1: Challenging HR Issues in Microfinance



Source: Microfinance Insights (2008)

Figure 2: Most Challenging HR Issues for MFIs



Source: Microfinance Insights (2008).

The top three forerunners, 'Recruiting people', 'Training and capacity building' and 'Preventing turnover' accounted for a whopping 80% of the challenge meter. In another survey conducted by MEDA (Mennonite Economic Development Associates) for ShoreCap Exchange and Grameen Foundation (Sengupta and Druschel, 2008), 25 high growth, micro and small business financial institutions were surveyed to understand their most pressing HR management needs and where they seek help with these challenges. The important findings from this study were as follows.

- 75% of the CEOs listed HR as a key priority for organisational growth.
- While agreement about the criticality of HR was high, less than half the institutions had systems in place to address the staffing challenge.
- Top four challenges from people's perspective were staffing, professional development, retention and career planning.
- Other key needs include HR information systems and augmenting HR management capacity.

An online HR resource center for micro finance and micro credit institutions[1], also echoed the same key challenges. Focusing on the key aspects of organisational and HR capacity building, they listed the following areas as requiring attention.

- Senior teams: Hiring the right people, moving from a single-founder model to a professional management team, synergisation amongst the top team, and strategic focus.
- Culture: Driving a customer-focused culture in the organisation, focus on systems and processes (to ensure stable, standardised work systems despite geographical dispersion), and driving innovation.
- Recruitment and selection: Hiring the right people, leveraging/ exploring innovative sourcing avenues, ensuring role and organisation fit, driving standardisation in assessment.
- Capability building: Right skilling and upskilling members at all levels of the organisation in terms of relevant technical, domain and behavioural/soft skills.
- People-related systems and processes: Leveraging best practices from other sectors to quickly speed up basic people processes; standardisation and consistency in application of these systems and processes; etc.

In the 2009 report on the State of the Microfinance Sector in India, based on Hewitt's Salary Increase Survey 2008–2009, N Srinivasan drew some conclusions from two perspectives namely; key business trends and challenges and people management implications of these. Some of the business trends and challenges from an Indian perspective included; the following.

- Projected CAGR of 76% over the next 10 years
- Expansion in client base from 10 crores to 40 crores over the next decade
- Increased private equity funding into the sector (growth by 242% in 2008-09), calling for greater transparency and structural changes
- Reduced fund flow from banks due to international capital market linkages during the economic slump last year

Some of the key people management implications of these business trends and challenges as reported in the state of the sector report are as follows.

- Staffing – the need to ensure a steady talent supply to support the growth plans of organisations
- Capability building – to right-skill staff to meet growth needs
- Organisational design – Structures that can sustain rapid, large scale

growth in a dynamic external environment

- Employee retention
- Standardisation of policies and processes

Table 1 summarises the findings from the four studies, highlighting the identified areas of need/key HR challenges:

Table 1 – Summary of Key HR Needs/Challenges

Microfinance Insights (2008)	Sengupta and Druschel (2008)	www.mfihr.com	Srinivasan (2009).
Recruiting qualified staff	Staff capacity building; HRM capacity for managers	Senior teams	Staffing
Training and capacity building	Lack of qualified candidates	Culture	Capability building
Preventing turnover	Staff retention; Competition for staff in the market	Recruitment and selection	Organisational design
Managing human resources	Recruitment systems	Capability building	Employee retention
Designing satisfying incentives	Staff incentives/ compensation	People-related systems and processes	Standardisation of policies and processes
Financial constraints	HR automation		

Looking Outside: Leveraging Best Practices and Learnings from other Industries

Based on Table 1, the key people management challenges and needs that emerge are 'recruitment', 'training and capability building', 'incentives and employee retention' and 'organisational culture'. This section examines each of these four critical people management needs in microfinance and attempts to explore good practices and learnings that MFIs can leverage from other industries.

Recruitment

MFIs are growing rapidly and growth strategies could vary. It could either deepen the reach into a few regions and/or widen the geographical spread across regions. This calls for the need to hire a large number of people, especially at the field staff level. MFIs compete typically with other financial institutions and NGOs for talent. The Microfinance Insights (2008) HR Challenges survey has examined hiring criteria at different levels in the organisation. At the entry/field staff level, knowledge of local language and local environment are the front runners due to extreme regional penetration and rural-urban outreach and hence they are critical for field staff. At more senior levels (Directors/C-suite), while local knowledge continues to top the list, management degree and/or international experience combined with experience in capital markets also becomes important. Here are some useful practices that other industries have successfully adopted in scaling their organisations and adding people in a reliable and sustainable manner.

Brand Building

The MFI market is not very differentiated from a customer's perspective. This may become important going forward, as competition in the sector becomes more pronounced. It is very important that the MFI builds a strong internal and external brand to attract potential recruits. Some innovative brand building approaches are as follows.

Hoardings: When Tesco, the British retail giant, set up its service support arm in Bangalore in 2004, it spent a huge chunk of its recruitment budget on hoardings. It was important for the firm to build its employer brand. This was because a majority of its prospective recruits, had either never heard of Tesco, or had shopping experience at any of its stores across 13 countries. "We put hoardings in the corridor where IT folks travel, and Bangalore having slow moving traffic, you can't even escape it," says the HR Head at Tesco HSC.

Company Open House Days: Invite prospective candidates to a group recruiting meeting where you share information about the industry, the organisation, training, the jobs, etc. Fullerton, a large credit company in India, uses leaflets and banners on the side of trucks driven throughout the service area to publicise these meetings.

Referrals

Current employees are the best avenue for new hires. While several companies have an internal referral policy in place, some companies have launched a massive internal marketing campaign (posters, videos on internal TVs/monitors, screen savers, etc.) to support a large hiring effort in order to solicit referrals from their employees. The Vice President (Temporary Staffing) at TeamLease Services says the importance given to referrals has grown multifold in the last few years. "More than 50% of placements at TeamLease are done though referrals. We believe that this trend would further firm up with the advent of various social networking sites," he adds.

Recruitment Process Outsourcing

Several mid and large size organisations across industries have outsourced their recruitment. For example: Vodafone outsources its recruitment activities to Alexander Mann Solutions (RPO service provider). Wipro has outsourced its recruitment process to MeritTrac. One of the major advantages to organisations who outsource their recruitment process, is that it helps to save nearly 40% of their recruitment costs. With the experience, expertise and the economies of scale that come from outsourcing, organisations are able to improve the quality of the recruits and the speed of the whole process. Also, outsourcing enables the human resource professionals of organisations to focus on strategic issues such as employee retention. This is especially useful as a recruitment strategy for MFIs who are in a ramp-up mode. This outsourcing model is perhaps wise given the growth plateau and the cutback story witnessed in several large IT companies; who had built up large in-house teams of recruiters and then were forced to lay them off.

Selection Techniques

The candidate pool at the entry level of an MFI often does not possess good writing skills. Therefore, while paper-pencil aptitude tests are useful, oral measures are much more effective. If computer literacy is important for some roles, one idea is to ask candidates to go to a local cybercafé to complete an online application form. This is an indicative measure of their ability to log in relevant details about the clients. McDonald, the famous global food chain, achieved a 30% reduction in its 90-day staff turnover levels in less than one year of overhauling its recruitment processes in April 2005 (Thomas, 2006). The 'Hire the smile' initiative had candidates attend an initial competency-based interview. If successful, they then took part in an on-the-job assessment known as 'Try before you buy'. The practical assessment, which lasted a day for graduates and an hour for crew member applicants, was conducted in partnership with an existing crew member, who then provided feedback on the applicant's likely fit with the store culture. As a senior HR Director at McDonald's UK, said: "Some people are naturally gifted at engaging customers, and we want staff members who enjoy that, as it is not necessarily something you can learn. The opinion of peers is also vital as it is important that they feel new staffs are going to add something."

Gender Diversity

A question that has come sharply into focus with regard to MFIs is the ratio of women to male staff. While the majority of the client base are women (about 83% globally and about 93% in India), men dominate at the frontline field force level. There is a strong business case to hire more women employees at the field force level as women clients are likely to be more comfortable with women field staff and relate to them easily. In this regard, MFIs have much to learn from IT-BPO Companies. At Accenture, for instance, gender diversity begins at the recruitment stage itself. "Accenture has a focused recruitment campaign designed to attract women employees. The campaign includes a metrics-based recruitment process, a referral program, a strong connection with colleges dedicated to providing education to women, a tailored advertising campaign and weekend recruitment events," says a senior member at Accenture. At the same time, the company has evolved several policies which have enabled it to emerge as a gender inclusive enterprise, such as the Global Flexible Work Arrangement and the Maternity Returners Program, for the easy transition of new parents back into the workforce by providing career guidance and support for finding ideal re-entry roles; child care centres and Vaahini, a formal community of all women employees to share experiences and create opportunities to learn and grow; a women networking portal and gender sensitisation training for supervisors and counsellors to help them understand and appreciate diversity to engage and manage employees successfully.

In summary, MFIs need to focus on key considerations such as policies that will help them become effective in hiring women employees; and then providing them with safe and engaging workplaces that will help retain women employees. Brand building is a good investment for MFIs in the short term to attract potential employees and going forward which will serve as a differentiator in the customers' minds. The larger MFIs who are scaling rapidly, by a large measure should actively explore recruitment outsourcing rather than augment internal capability. It is time to do some internal housekeeping to ensure that the organisation has a well-defined, reliable recruitment and selection process and appropriate selection techniques which will bring on board the right people. This is indeed worthwhile as the appropriate investment made upfront in selection will ensure retention and save costs incurred in backfilling positions due to early exits.

Capability Building and Training

Capability building is a one of the largest HR needs in the microfinance sector today. Typically, the largest training focus in MFIs is on induction/orientation training. According to the 2008 HR Challenges Survey, many microfinance institutions prefer to offer basic in-house training for new joinees to provide general information about the institution and product knowledge. Usually these include classroom sessions along with field training in the form of shadowing loan officers as a means of learning the delivery methodologies of the institution. More in-depth induction programmes include field monitoring, MIS tutorials, accounting basics for branch managers, needs assessment and monitoring methodologies, as well as finance and human resources for management level staff. Some MFIs organise visits to established MFIs as part of their training programmes. There is very little that is done by way of needs assessment to determine ongoing training needs and skill building beyond orientation and almost nothing done to prepare high performers for next roles and growth.

In order to scale in a sustainable manner, MFIs need to focus on building capability – rightskilling people for their roles, preparing them for next roles, and putting in place relevant talent management and succession planning processes. One of the challenges that MFIs face in this context is in delivering training in a standardised, impactful manner across a geographical spread to a field force that is busy chasing targets. MFIs are also starting to grapple with a field force that has demonstrated capability but organisationally, there is a lack of appropriate systems and processes to identify high performers and help them scale. Here are some interesting best practices for MFIs to adopt from other Industries.

Leveraging technology to deploy large-scale training

In 2009, Reliance World and XLRI Jamshedpur jointly launched five Postgraduate Certificate Programmes. The courses were aimed at mid-career executives through virtual classrooms at Reliance World retail outlets in over 40 cities in India. The virtual classroom programmes, powered by video conferencing facilities, have been introduced to enable working professionals/executives across various functions to complete their management education while still continuing to hold full-time jobs. Today, using technologies such as the Internet, corporate intranets, CD-ROMs, videoconferencing, electronic text and interactive TV, employees are able to learn from around the world and at a fraction of the time and cost. Some key useful messages regarding Technology-based Training (TBT) that comes through in a benchmarking study conducted by the American Productivity and Quality Center (1999) are as follows.

- Leverage TBT to deliver highly job-relevant training – this is especially critical to engage the participants in a "non-captive" atmosphere.
- Need to judiciously balance TBT and face-to-face training offerings.
- Simple technologies are the best/most relevant. For instance, a simple video demonstrating good customer service may be far more impactful than a more laborious interactive CBT.
- Need to build an appropriate relationship management and communication into the TBT plan to address the possibility that employees may balk at the thought of learning outside a classroom and away from their peers.

Innovative lateral moves for career growth

In the BPO industry, which is characterised by a large base and then a very sharply steepling organisational pyramid, the opportunities for upward movement are more difficult to come by. Therefore, organisations try and staff the positions of subject matter experts, quality/ workflow associates and trainers as lateral moves through internal job postings. Agents are also provided with the flexibility to develop lateral skillsets apart from operational expertise and are offered inter-department transfers where an agent could move to functions such as Workflow, HR, MIS or Recruitment. Further, several BPO companies are encouraging agents who have spent a significant time in a particular process to cross-train and move to another process (often as a lateral move) as a retention bid.

Building customer focus

There are a couple of legendary stories of customer service – a Nordstrom clerk who refunded the price of a customer's tyres, even though Nordstrom does not sell tires and a Midwest Express employee who lent his own suit to a passenger whose luggage had been lost. Can we train employees to do this? Yes and No. According to Leonard Berry (1999), "There's no way to write a policy manual that instructs employees on what to do in every conceivable situation. However, by building the ethic of excellent service into the (organisation's) core values, even without the rulebook, your employees will know what to do."

It is important to make service a core value and keep it fresh and paramount in everyone's mind. And this process starts at the top. Senior leaders need to speak about and demonstrate customer service as a core value – by sharing stories, celebrating day-to-day successes of frontline heroes with customers and empowering frontline employees to do what is necessary to achieve their customer service vision. Finally, it is important to solicit and pay attention to customer feedback. This means going out on regular field visits with the frontline staff and keeping a finger on the pulse of the customer. It is equally important to start building a knowledge base of customer service experiences to start leveraging best practices, encourage peer learning and enable standardisation.

At the Four Seasons Hotel, which has consistently won customer service awards, they believe that the key is to help the employee understand what it feels like to be a customer. The final piece of their seven-step employee orientation is something the chain's executives call a 'familiarisation stay'. Each worker in these hotels, from housekeepers to front-desk clerks, is given a free night's stay for themselves and a guest, along with free dining. Employees are asked to grade the hotels on such measures as the number of times the phone rings when calling room service to how long it takes to get items to a room. In a microfinance organisation context, the value of on the job shadowing cannot be emphasised enough.

Training through Coaching

An excellent industry for MFIs to benchmark their training practices against, is 'retail' due to significant commonalities. Employees are spread across multiple and scattered locations making training delivery challenging; training needs to go beyond "smile" training and train people on processes, work methods and service tasks. Most retail employees (such as MFI frontline staff) come with very minimal educational qualifications and therefore cannot be subjected to intense conceptual inputs or classroom inputs. Employees in retail stores also cannot be spared for long hours or days for training. Hence, there is need for a shift in the approach to build capabilities by adopting coaching instead of training. Coaching focuses on performance improvement whereas training focuses on developing skills, which may or may not be applied. Coaching provides one-to-one attention and is delivered at the workplace by the supervisor or job expert. The gap between the 'trainer' and the supervisor is reduced. By adopting a coaching model, delivery becomes easy. Essentially, the training is taken to the workplace rather than expect people from the workplace to come out for training. This is prevalent in other industries as well. Equant, a communication infrastructure solutions company employs a "buddy system" where a newcomer is attached to an existing employee for initiation and skills improvement.

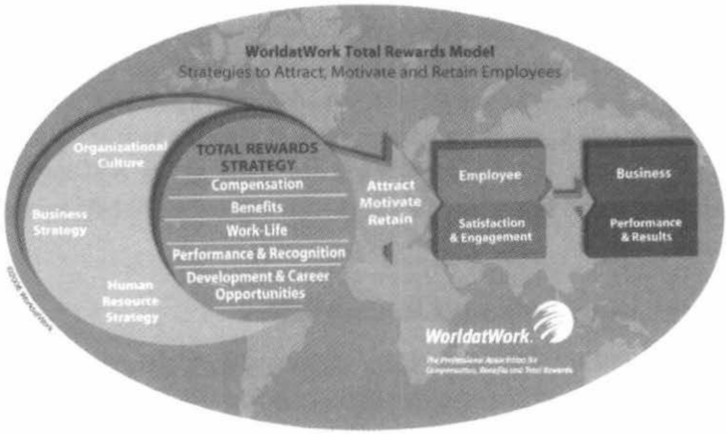
In summary, MFIs need to think creatively in addressing their capability-building mandate. Perhaps, the solution to large-scale deployment of training and skill building lies in a combined effort towards leveraging technology and simple multimedia solutions along with coaching/mentoring activity. Customers are at the core of any business. However, the customer profile of a typical MFI customer is rather different – he/she is part of the large rural/urban poor, struggling to make ends meet and create a better life for herself and her large family. In a nutshell, it is a long journey for MFI staff to make a real difference and to build a differentiator status for the MFI in the minds of the customer.

Incentives, Rewards and Recognition

MFIs are grappling with the classic issues that field operations-based organisations deal with around the issue of a rewards strategy. Historically, from a starting point of a one-size-fits-all salary and benefits structure, organisations moved to a realisation in the 1970s and 80s that a strategically designed compensation and benefits programme could give them a competitive edge. Since then, marketplace and economic forces have propelled leaders to explore various ways of improving the efficiency, effectiveness and viability of their businesses. This has given way to rewards strategies that ensure greater alignment of pay and performance, tighter controls on benefits costs, and focus more on relevant and valued employee rewards programmes.

The concept of total rewards emerged in the 1990s as a new way of thinking about the deployment of compensation and benefits, combined with the other tangible and intangible ways that companies seek to attract, motivate and retain employees. Total rewards models recognise the importance of leveraging multiple programmes, practices and cultural dynamics to satisfy and engage the best employees, contributing to improved business performance and results. WorldatWork, a professional association which focused on compensation, benefits, work-life effectiveness and integrated total rewards convened a group of compensation experts in 2006 to create a total rewards model.

Figure 2: Total Rewards Model



Source: www.worldatwork.org

Here are some best practices from other organisations with respect to critical issues confronting MFIs in the rewards area today – incentives, marketplace parity, team performance linkages and non-cash rewards and recognition measures. Whether to have incentives or not? When to introduce incentives? Should only frontline officers be incentivised or the entire organisation? How to deal with parity issues for senior executives who have moved from other industries at less pay? Should we incentivise individual performance and/or team performance? These are important questions for strategic policy makers in MFI to answer.

For these issues, MFIs can look at start-up companies in IT for cues on executive compensation. Besides, they can also seek guidance from 'Compensation and HR' specialists. Fox Lawson and Associates (2002) recommend keeping base salary reasonable but low (10–20% lower than current base salary), annual bonus tied to attainable objectives (but recommend the exploration of deferred payment, conversion to stock or even no bonus, at least in the growth phase), and instead, focus on long-term compensation measures such as stock options.

Individual vs. Team Performance Linkages

Traditionally, incentive schemes and variable pay systems are linked to individual performance. Zingheim and Schuster (1997) conducted a study across three companies namely Honeywell Defense Avionics Systems, Solectron California Corporation and XEL Communications Inc. to understand the relevance of team-based pay and to come up with an optimal design of a team-based pay system which supports team performance and skill acquisition and application. They came up with straightforward recommendations which included the following. First, high involvement, strong communication and sponsorship are essential. Second, variable pay is the primary performance recognition element funded at the business unit level and distributed at the small-team level based on small-team goals. Third, simple skill-based pay with market benchmarking decides individual base pay. Fourth is the need for lump sum awards to allow changes in skills and competencies at the individual level. Finally, address individual pay based on contributions to the small team to be deferred and only started on basis of team readiness. Finally, in all three companies, interviews with executives, managers, team members, team leaders and human resources representatives showed positive support for teams and team pay. No one said they would return to prior pay designs. While respondents agreed that they had some distance to go in order to perfect team pay, they also felt that even a less-than-optimal team pay plan outperforms a traditional pay approach in terms of value added to the business and employee responsiveness to key goals and directions.

Non-cash Reward and Recognition measures

The young workforce today mostly comprises Gen Y people – those born between 1977 and 2002. This generation is unique in the extent of their exposure to and usage of technology, foreign media and the changing profile of their social environments. In February 2009, the Great Place to Work Institute held a forum in London on the subject, Motivating Generation Y, where HR directors from companies such as Danone, Mars, McDonalds, Cisco Systems and Proctor & Gamble participated. This group came up with a list of rewards and benefits that are most likely to motivate Generation Y employees.[2] Some of them included: personal thank you, interior design of workspaces, team awards, recognition; secondments to other departments/organisations/charities; social networking events; friendship and respect; special recognition such as star awards; collaboration projects with other organisations; volunteering and community projects; sabbatical; secondment to understand customer environment; e-learning; international assignment; time for innovation and own independent projects; time with senior leaders; career breaks; opportunity to showcase one's own work; time off for birthday/to do something non-vocational; flexible working hours and option of working from home; discounts on gadgets/holidays/phones/calls; flexible benefits like bikes for work; financial advice, etc. Fortune (2007) listed the top 20 companies for new graduates in terms of great employment practices. The list included Microsoft (Xbox kiosks to keep energy levels high, free soft drinks), Intel (An Intel university offers more than 400 job-specific training courses taught online and in person by fellow employees in on-site classrooms during work hours and tuition reimbursement for outside studies) and L'Oreal (rotational training programme that gives young employees the hands-on experience of working in sales, marketing, management, and finance).

In summary, as MFIs mature and grow in size and complexity, it would serve them well to define a total rewards strategy for the organisation that balances cash and non-cash, cultural and environmental compensation, benefits and incentives. Incentive programmes are in their nascency in the industry. It is perhaps a great opportunity to explore team-outcome-based incentive programmes especially for field staff. Given the double bottom line goal of these organisations, it may also be relevant to tie back bonus/ incentive plans for managers and others with critical social impact metrices such as the Progress out of Poverty Index (PPI) developed by the Grameen Foundation. This index has country baseline indices and organisations are increasingly adopting the PPI to track movement of their clients out of poverty.

Employee Retention and Organisational Culture

As MFIs grow and become increasingly competitive, employee retention will become a critical need for MFIs. Core to employee retention is organisational culture. Culture can act as a powerful retention tool and build 'stickiness' in the organisation.

A central issue with respect to organisational culture in MFIs is: How to retain the soul of MFIs? How do management teams build cultures that focus equally on doing well and doing good? The geographical dispersion of MFIs poses challenges with respect to institutionalising culture and ensuring that the vision and values of the organisation are commonly understood across the board. There is also a pronounced need in the sector to build organisational capacity to proactively prepare for and meet growth-related challenges. This includes the need for rigorous and standardised systems and processes in all realms (operations, HR, audit and accounts), strategic planning, governance structures and resource plans. This needs to be done in a manner that is aligned to, reinforces and ensures the achievement of the organisation's vision and values. Leaders in MFIs need to be trained to act as champions of the organisation's vision and values. They also need to play a central role in building an ethical organisation, given the heightened possibility of financial misdemeanors. Finally, the organisation needs to build into its very fabric a deep respect for and understanding of the customer (typically women) and her social, economic and cultural milieu. MFIs can jumpstart their efforts in the area of culture building by looking at other organisations who have weathered various challenges to stand strong and firm, organisations where their culture has played a large role in helping them grow and flourish as businesses. Under each of these focus areas for MFIs, we have looked at organisations in other domains who have best in class practices.

Employee Engagement

Engaged employees deliver outstanding business results. Michael Treacy (2003) demonstrated the relationship between double-digit growth companies and engagement. Employee engagement scores were 21% higher in double-digit versus single-digit growth companies. Aspire Systems was named in the NASSCOM Exciting Emerging Companies 2008 Survey under the Employee Engagement Category. There are several key differentiating factors which make the employee engagement activities at Aspire Systems a best practice centre around creating an environment where employees behave as true professionals while keeping the child in each one alive! Some of their practices include: a sports club that conducts regular indoor and outdoor activities; an entertainment club which organises cultural events including theatres, painting, sculpting, dancing and music concerts, etc. The company has a rock band comprising talent drawn from employees. Additionally, they also have billboards with a picture of the high performer for the month that stays in place for an entire month.

Driving Culture across a Geographically Dispersed Organisation

Building a global corporate culture involves recognising the differences among employees from a variety of nations. However, the real key to developing a cohesive global corporation is to find a way to effectively communicate a common set of values and principles consistently across national, cultural and linguistic boundaries. Cincom Systems is a privately held multinational, computer technology corporation with 24 offices in 17 countries distributed over five continents. Early in their growth, they recognised the criticality of establishing a single way of doing business that transcended national and cultural boundaries. Some measures they have adopted in driving a global Cincom culture include the following. Communicating core values in a global language and ensuring that their values of character, competence and commitment are understood commonly across all their offices, around the globe. They focus on frequent and open communication and senior leaders are easily accessible. Ethical practices are upheld very strongly, irrespective of different national cultures. They have a global recognition programme where each branch office nominates 10% of its staff into this elite club as recognition for upholding the organisation's values. Each member of this club receives a gold ring with a diamond in it. Bi-annual leadership meets are conducted in the home office where senior leaders across the globe participate in discussions around strategy, business practices, new products and corporate challenges. By sharing a common set of challenges and objectives, these meetings help create a sense of common purpose among domestic and global leaders and are very valuable in reinforcing their core principles across the global organisation. They have consciously ensured that they hire strong leaders locally (rather than run operations by rotating out managers from headquarters in the US). Finally, Cincom believes in building personal connections among peers. They have a state-of-the-art peer-to-peer communications platform that provides an organic system for fostering communications and knowledge sharing among branch offices around the world. There is a strong culture of supporting colleagues across the globe. Regardless of time zones, a spirit of "do whatever it takes" is emulated in all Cincom offices.

Ethics and Discipline

Ethisphere's (2008) list of the world's most ethical companies includes organisations such as Honeywell, Nike, HSBC, Starbucks, Avaya, Becton Dickinson and Xerox. These organisations stand head and shoulders above their competition on the following parameters namely corporate citizenship and responsibility; corporate governance; innovation that contributes to the public well-being; industry leadership; executive leadership and tone from the top; legal, regulatory and reputation track record; and internal systems and ethics/compliance programme. Google is one of the award winners. Google encourages its staff to become involved in these efforts at all levels and routinely communicates the importance of ethics and compliance to its employees. Additionally, Google is working with a group of other companies, NGOs and academics to help develop a global code of conduct to deal with governments that suppress free expression and privacy. Interwoven into the fabric of any company known for its ethical practices is a strong compliance and disciplinary mechanism. It is of paramount importance that the company has a process to register, track and address ethical misdemeanors/ disciplinary transgressions and that this has to be communicated to all employees and managers trained in implementing these processes.

Institutionalising Culture – Role of Leaders and System-Process Alignment

When we think of companies with strong cultures, we almost always think of iconic leaders such as Steve Jobs at Apple, Jack Welsh at GE and Richard Branson of the Virgin Group. However, one leader does not make a company. In order to truly institutionalise culture, there are two 'must haves' i.e. leaders at all levels live the values and drive key organisational messages and organisational values are 'built in' to key people processes. One company that is well-known for its investment in leadership is GE. GE spends over 1 billion USD on training and development annually, to build leadership capability (Leslie, 2006). GE espouses five growth traits for success: imagination, clear thinking, inclusiveness, external focus and having a domain expertise. Also, they have systems and processes in place to measure and build capability in these aspects. In the organisation, leaders are required to have "growth dialogues" with their teams around these growth traits. After individuals complete the growth dialogues, leaders report their findings and what they are focusing on. GE also devised a matrix specifically for rating employees, based on the five growth traits and their components, to be used as part of their annual review. Each individual identifies a development need and an action plan to improve on that trait. On the developmental side, GE also uses particular training courses at its leadership training centre in Crotonville to offer more perspective into the growth traits.

Culture is the key ingredient to knit an organisation together and propel it towards success. A strong organisational culture has positive impact on attrition. There are important messages with regard to culture for MFIs to reflect on – What are MFIs doing to communicate their organisational vision and values to every member in the company? Are all leaders in the organisation aligned to and speak passionately about the company? What are MFIs doing to drive customer centricity as a core value? Do they have people and operational systems and processes in place that echo our vision and values – for instance, are they measuring management against key social metrics in addition to financial metrics, do they have a strong set of policies to hire and retain women employees and do they have a strong and common framework to build an ethical organisation? These questions need to be pondered to create and sustain the vibrant organisation culture within MFIs.

Conclusion

Microfinance organisations are experiencing tremendous growth. Growth brings with it challenges as well as opportunities. From an HR perspective, the largest challenges that these organisations are confronting are in the domain of 'recruitment', 'training & capability building', 'rewards & incentives and 'culture and employee retention'. In each of these areas, there exist success stories, best practices as well as lessons to be learned from the experiences of established organisations in more mature sectors and domains such as IT, IT-enabled services, FMCG and pharma. They have confronted similar growth-related HR challenges at earlier times and have successfully overcome them to emerge as strong and successful businesses. Based on the examples and experiences of other industries, this article attempts to synthesise the HR learnings for MFIs. First, it briefs how MFIs can leverage and enhance their recruitment strategies and add large numbers of frontline staff creatively. Second, it provides insights on training and capability building for MFIs by going beyond the traditional orientation training and focusing more on right-skilling of the people, building customer focus and enhancing career movement. Third, the study highlights the need for relooking at the performance appraisal system at MFIs with incentives, rewards and recognition and by building appropriate incentive schemes for field staff and going beyond money to leverage appropriate reward and recognition mechanisms. Finally, the study draws attention to the ways through which employee retention and organisational culture at MFI can be strengthened by focusing on employee engagement, institutional culture, and role of leaders and criticality of communication.

References

American Productivity & Quality Center (1999). Technology-Based Training: Global Strategies for Learning. Retreived Auguust 10, 2000 from www.apqc.org/press/release/tbt.htm Google Scholar

Companies and markets (2008). India Microfinance Market Report. Retrieved fromhttp://www.companiesandmarkets.com/Summary-Market-Report/india-microfinance-market-193922.asp

Daley-Harris, S. (2006). State of the Microcredit Summit Campaign Report 2006. Retrieved from http://www.microcreditsummit.org/pubs/reports/socr/2006/SOCR06.pdf

Ethisphere (2008). World's most ethical companies. Retrieved from http://ethisphere.com/wme2008

Fortune (2007). 100 top MBA employers. Retrieved from http://money.cnn.com/magazines/fortune/mba100/2007/index.html

Fox Lawson and Associates (2002). Compensating your executive team on a shoestring. Retrieved from www.foxlawson.com/executive_compensation.html

Great Place to Work (2009, June). Motivating Generation Y: Across the great divide. Great Place to Work Executive Briefing. Retrieved from http://resources.greatplacetowork.com/article/pdf/motivating_generation_y_-_executive_briefing.pdf

Latifee, H.I. (2006). The future of microfinance: Visioning the who, what, when, why, and how of microfinance expansion over the next 10 years. Retrieved from http://www.grameen- info.org/grameen/gtrust/The%20Future%20of%20Microfinance.pdf

Leonard L. B. (1999). *Discovering the soul of service.* NY, New York: The Free Press.

Leslie, K. (2006). Generating leaders GE style. *HR Management*, Issue 4. Retrieved from http://www.hrmreport.com/article/Generating-leaders-GE-style

Microfinance Information Exchange and Intellecap (2008). Asia Microfinance Analysis and Benchmarking Report. Retrieved from http://www.themix.org/publications/2008-asia-microfinance-analysis-and-benchmarking-report

Microfinance Insights (2008). *Human Resource Challenges and Solutions in Micro Finance Survey Report*. Retrieved from http://www.microfinanceinsights.com/oldsite/Download/HR%20Survey%20Report%20April%2008.pdf

NASSCOM (2008, November). Gender Inclusivity and Diversity in the Indian IT-BPO Industry. *NASSCOM Newsline*, November. Retrieved from http://blog.nasscom.in/nasscomnewsline/2008/11/gender-inclusivity-and-diversity-in-the-indian-it-bpo-industry

Sengupta, U. and Druschel, K. (2008, March). Bottleneck for growth: The human capital issue. Retrieved from https://www.microfinanceinsights.com/articles_new.asp?member=nonmembers&id=135

Smith, R. (2006). The changing face of microfinance in India: The costs and benefits of transforming from an NGO to non-bank financial company. Master of Arts in Law and Diplomacy Thesis, Tufts University.

Srinivasan, N. (2009). *Microfinance India: State of the Sector Report 2009*. New Delhi, India: Sage Publications.

Thomas, D. (2006). McDonald's saves £1.2m with recruitment overhaul. *Personnel Today,* January. Retrieved from http://www.personneltoday.

com/articles/2006/01/10/33317/mcdonalds-saves-1.2m-with-recruitment-overhaul.html

Treacy, M. (2003). *Double-digit growth — How great companies achieve it no matter what*. New York: Penguin Group.

Zingheim, P. K. and Schuster, J. R. (1997). Best practices for small-team pay. *ACA Journal*, *6*(1), 40-49.

END NOTES

1 www.mfihr.com

2 Great Place to Work (2009, June). Motivating Generation Y: Across the Great Divide. Great Place to Work Executive Briefing. http://resources.greatplacetowork.com/article/pdf/motivating_generation_y_ executive_briefing.pdf