Why Invest in People? Leveraging Talent to Reach Strategic Objectives

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Introduction

> *"…these three gaps — developing future leaders, rapidly developing workforce skills and capabilities, and fostering knowledge sharing and collaboration — are critical areas that [organizations] must address if they are to move beyond borders and unlock the potential of the workforce."*
>
> *– The IBM Global Chief HR Officer Study, 2010*

Microfinance organizations across the globe are struggling to navigate financial, regulatory, political, competitive and other challenges as they focus on reaching greater numbers of the poor and poorest. Perhaps the single most important resource MFIs have for meeting these challenges is the capability of their people. Whether developing and delivering financial products that meet the needs of the underserved or working to help educate regulators on the needs of the industry, MFIs must depend on their own internal resources. While some organizations recognize this imperative, for others achieving long-term success requires a fundamental shift in focus, moving from viewing their staff as a necessary but somewhat interchangeable resource to the understanding that a competent, capable, and committed workforce can be <u>the</u> strategic differentiator and the key to successful growth. Maximizing staff strengths depends not only on hiring right and providing appropriate learning and development opportunities; it requires adoption of strategically focused human capital management practices.

Over the past 20 years, successful private sector organizations have realized the strategic advantage a competent, committed workforce provides and have experienced significant benefits as a result. We are beginning to see similar results in the microfinance sector. While the particular sample size is small, a recent study released by the MIX Market confirms that "the more progressive the human resource policies implemented by MFIs, the higher the productivity of their staff."[1] There was also a strong positive correlation between staff productivity and training on social performance. It will be interesting to see how this trends across broader dimensions of training and strategic HCM practices. Strengthening internal people practices has long been an identified challenge for the industry; of the top ten concerns listed in the 2011 Banana Skins report year, seven have at their core a focus on people. The report specifically highlights "(a) strong concern among practitioners about internal issues, specifically corporate governance, management and staffing." The report goes on to state: "[t]his reflects a growing awareness within MFIs that their institutional strength needs closer attention."[2]

Private sector experience shows that even incremental increases in comprehensive human capital management practices result in reduced staff turnover, increased sales/employee, as well as increases in market value and profits.[3] And significant cost savings can be realized with reductions in staff turnover.[4] Perhaps the most compelling example that identifying and focusing on human capital management practices contributes to positive financial results is the research that led to a significant business turnaround at Sears, Roebuck and Company in the early 1990s. Through their balanced scorecard model, Sears found that a five point increase in employee attitudes drove a 1.3 point improvement in customer satisfaction, resulting in a 0.5% improvement in revenue growth.[5] We believe the microfinance sector can expect similar outcomes. And by aligning human capital management practices with their social mission, we believe microfinance institutions can extend these positive outcomes across the double bottom line of social as well as financial returns.

This paper will explore what microfinance institutions can do to maximize the value of their biggest asset—their people.

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[1] Gonzalez (2010), Microfinance Synergies and Trade-offs: Social versus Financial Performance Outcomes in 2008, MIX Data Brief No. 7
[2] Lascelles and Mendelson (2011), "Microfinance Banana Skins 2011"
[3] Huselid (1995), "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance"
[4] Nalbantian and Szostak (2004), "Best Practice: How Fleet Bank fought employee flight"
[5] Rucci, Kirn, and Quinn (1998), "Employee-Customer-Profit Chain at Sears"

What are the People Challenges?

> *"Few employers will be able to compete effectively in the current environment without policies and practices that recognize and allow for differences in employees' roles, skills and performance, as well as their interests, expectations and needs"*
>
> *– Towers Watson 2010 Global Workforce Study*

In Grameen Foundation's work with microfinance institutions across the globe, we find many of them face similar people challenges. They need strong, competent leaders, especially in the field, who can manage current complex challenges, develop their teams, and grow their businesses. Out of the ranks of these field leaders will also come the next generation of senior leaders who will guide their organizations and the sector into the future. MFIs also need to hire the right people—at all levels—but especially in the key field officer role, describe by one CEO of a large Indian MFI as "the backbone of microfinance." And once hired, MFIs need to make sure these critical employees develop the technical skills and behaviors required to effectively deliver the organizations' products and services while ensuring clients' interests are protected.

MFIs often struggle to retain their best people and sometimes feel as though they are the training ground for the commercial financial entities operating in their markets. But they also hesitate to entrust decision-making too far down the organizational hierarchy, preferring instead to keep authority centered at the head office, with senior leaders. This practice is at odds with the need to develop employees who can take on ever-increasing responsibilities. Also contributing to this dynamic, we see many MFIs who hesitate to share much information with their staff—on external regulatory or political challenges, progress against overall organizational targets, or even the sharing of internal best practices—out of a belief that the average employee won't understand, has nothing of real value to add to existing operating procedures, or may share confidential information with competitors. But what a lack of information and transparency really does is to reduce the employee's ability to commit to the organization or to see the link between his or her own efforts and what is needed to drive the organization forward.

Human Capital Management and the Current Indian Microfinance Crisis

Much has been written about the current situation in the Indian state of Andhra Pradesh, home to some of the largest MFIs in India, if not the world. And while the issues that led to this crisis are complex, there is clearly a human capital management component. Focusing on what we can learn from the Indian experience will serve to set the stage for our discussion of the value of leveraging an organization's people resources in the most strategic, powerful way.

While there are examples in the MF sector where commercial investment can exist alongside and in support of an organization's social mission,[6] it is important that the MFI's culture and strategic objectives constantly reinforce its mission. In the rush to bring on additional staff to fuel growth and deliver expected financial returns, the social return can be overlooked. Senior leaders may continue to be driven by the mission, but if there isn't an intentional focus on reinforcing this in the field, little attention will be paid to it. For example, we often hear that orientation training of new field officers is short-changed due to the need to get the new recruits actively engaged in the work, leaving little or no time to reinforce the importance of the social mission, the desired behaviors, and the commitment to client protection principles. And few organizations tie field officer incentive payments and performance targets to the poverty level of the new clients they recruit, choosing instead to measure easier-to-gather data such as overall number of clients, size of portfolio and portfolio quality. Structuring performance targets that reward these short term objectives without the inclusion of more qualitative customer satisfaction and service measures may create incentives for field officers to use aggressive tactics to secure repayments or cut corners on credit underwriting in order to sign up new clients and expand the overall portfolio.

[6] Gibbons, David S. & Jennifer W. Meehan. (2000) "The Microcredit Summit's Challenge: Working Towards Institutional Financial Self-Sufficiency while Maintaining a Commitment to Serving the Poorest Families." Microcredit Summit. http://www.microcreditsummit.org/papers/challenge.htm (accessed July 18, 2011).

Over the past year the Indian microfinance sector has seen MFIs, pushed to grow at an exponential rate, run up against some of these growing pains. The Reserve Bank of India (RBI) has stepped in to develop new regulations for the industry, and in the process has acknowledged the powerful role well-structured people practices can have on an institution. A report from the RBI's sub-committee (commonly referred to as the "Malegam Report") which was commissioned to "Study Issues and Concerns in the MFI Sector" identified a number of practices that an MFI's board should take responsibility for. In section 16 of the report, concerning corporate governance, the report calls out operational policies such as employee conduct, compensation, selection and training as critical drivers in supporting an MFI's "twin objectives" of poverty alleviation and reasonable profits.[7] Special emphasis on a code of conduct for field staff and a call for more robust investments in training and supervision highlights the important role these front line employees play in carrying out an institution's mission and protecting the clients they serve.[8]

It's important that senior leaders know what's going on in the field and the local challenges and conditions that currently (or will) impact the MFI's business. Are the products offered meeting client needs, and do clients really understand the products and services they're signing up for? Have there been changes in the economic situation in the particular geography that must be taken into account? Is there increased competition and, so, a danger of over-indebtedness? This information is critical to consider when making decisions about strategic growth, performance targets and new product development. But even the branch managers rarely get the opportunity to share what they know with senior leaders, let alone field officers. This can mean that decisions are made at a head office that may be hours or even days away from the realities of the field. And without this first-hand intelligence, senior leaders may not be aware of increasing problems until they explode.

[7] Malegam, Shri Y. H. et al. (2011). "Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector". Reserve Bank of India.
[8] Ibid.

Hiring Right

So where should an MFI begin? The first step is to attract the best, most qualified candidates. It can be difficult to source enough qualified candidates to have an adequate choice of hires in some labor markets, whether for the field officer position or a more senior manager opportunity. The challenges can be diverse, ranging from low levels of educational achievement due to poor schools or significant competition from the more lucrative commercial financial sector, to an over-abundance of university graduates who desire a position far less physically demanding than that of a typical rural field officer.

Let's examine what MFIs can do to identify those candidates who are willing to work in environments that are often remote and lacking in basic infrastructure. To increase the retention rate of new hires, MFIs often offer candidates the opportunity to shadow a current field officer either before accepting a position or prior to placing the new hire in an open position, to 'try on' the position to see if they can handle it. While a significant investment in someone who may not choose to join the organization, it is an excellent way to make the job real to the candidate.

But in high growth situations where many field positions must be filled, job shadowing may not be practical. If hiring can be done at a central or regional location and resources allow, a candidate 'information meeting' can be held. Existing field officers can present the organization and the job to the group, using photos or even video to describe field conditions and a 'typical' day in the life of a field officer. Candidates can then self-select out of the selection process if they don't find the work appealing. While this approach requires up front effort to develop the structured meeting, it is a way to efficiently handle a large group of applicants.

Hiring Right – "The Disney Look"

The Walt Disney Company, parent company of the famous Disneyland amusement parks, is a clear example of an organization that strives to maintain a consistent and specific brand image across all who work in their parks. As a large part of their role is putting on a show for the visitors, Disney staff members are dubbed "Cast Members" and they are expected to adhere to a strict dress code, which includes no visible tattoos, trimmed hair for men, and only small stud earrings for women (among many other criteria). This "Disney Look" is intended to ensure that Cast Members appear "friendly, approachable, and knowledgeable."[1] However, Disney has recognized that these requirements may seem excessively restrictive to those accustomed to a more flexible work environment. To assist potential employees in understanding what exactly will be expected of them, even before they complete the application process, potential Cast Members view a short video outlining the "Disney Look" along with other basics of the position such as pay and work schedules.[1] This allows for those unwilling to comply with the restrictions to self-select out of the recruitment process and for those who continue on in the process to have a clear idea of exactly what the job entails.

Organizations must also identify the skills and behaviors that support success. What sets exceptional employees apart? Is it analytical ability, communication skills, alignment with the social mission, ability to establish strong relationships, or something else? Too few organizations carefully analyze these keys to success, and instead rely on superficial criteria such as educational level, marks attained or even age or marital status when making hiring decisions.

Establishing the key success factors for each position based on an analysis of what differentiates current employee performance is important. This can be achieved in a number of ways. Branch managers can survey field officers to ask them what they think are the top criteria for success and compare these to actual performance results. The HR head can also meet with a group of branch managers and ask them to brainstorm the key skills and attributes of a high-performing field officer and then the group can rank these in order of importance. Then the branch managers can be asked to rank their own staff in order of performance and the group can discuss which of these skills and attributes the top performers possess. It sometimes happens that the attributes thought most important in the abstract are <u>not</u> found in all the top performers, and rich discussion can ensue around the difference. The point of the exercise is to identify the attributes that really determine successful performance, so that these can be built into the selection process.

Once the key success factors are determined, screening tools can be developed to assess candidate fit. Educational performance, experience, and test scores may have their place, but perhaps most important will be the actual selection interview. Standard interview questions should be developed for each job category, driving consistency when there are multiple positions available and multiple interviewers. Asking questions that require the candidate to describe how he or she demonstrated particular skills or behaviors in previous situations is called "behavior-based interviewing" and is key to predicting future success.

Hiring Right – CARD Bank

Through the Microsavings Initiative, a three year project funded by the Bill & Melinda Gates Foundation and with the support of Grameen Foundation, CARD Bank in the Philippines is greatly expanding its microsavings product offerings. To support the initial pilot of their new savings products, CARD created two new branch-level jobs: Savings Associate (SA) and Customer Service Associate (CSA). The SA's role is to open new savings accounts and collect deposits for clients outside the branch office, while the CSA manages the new account opening process for walk-in clients, supports the SA in processing new accounts, and manages the savings clients of the branch. Recognizing that they preferred to recruit for these new positions internally, Grameen Foundation's Human Capital Center and our collaboration partner, CoCoon Consulting worked with CARD to create an internal "Assessment Center" to evaluate all nominated internal candidates for this role. By clearly defining the desired competencies, such as communication, customer focus and problem solving, internal assessors were able to facilitate a session in which candidates took part in a number of diverse activities designed to demonstrate their comfort and capabilities in each competency area. These activities included individual presentations, group activities, role-play situations, and a numerical aptitude test. Candidates were then rated, and from these ratings, a final cadre of SAs and CSAs was selected. Recognizing the value of this type of robust talent selection process, CARD plans to adopt this same approach across the organization.

Planning for Future Needs

Along with establishing clear selection criteria for each position, MFIs must also plan for their future workforce needs in order to support anticipated growth. Expectations of growth in client numbers, portfolio size, plans to add additional products and services and especially geographic expansion will all impact both the number of employees needed and the skills required. Moving from an NGO to a regulated institution may also require additional experience in the risk, reporting and internal controls areas. Defining different potential scenarios and developing a plan for each one will ensure the organization is prepared to move forward when the way is clear.

MFIs should first analyze the maximum work load field officers can carry given current levels of operating support and then anticipate how this might change with added efficiencies that planned process reengineering and upgrades in IT will bring. Adjusting this for the start up time needed when establishing new branches in new areas will help estimate the additional head count required. Significant additions to field staff will require additional support at the regional and headquarters level, and plans to expand products and services should be supported by strong marketing and product development functions. A careful assessment of current internal capability will also identify what skills must be further developed to support planned growth. All these factors should be detailed in a workforce plan that is part of the strategic planning and budgeting process for all functions within the organization.

It Starts With Commitment

Research in the for-profit sector is clear: those organizations who adopt progressive human capital management practices experience higher levels of employee commitment. And why is this important? Higher employee commitment levels result in higher levels of performance of job responsibilities and increased “extra-role behavior”—going above and beyond established expectations to provide discretionary effort resulting in additional gains for the organization. These increased efforts in turn result in higher levels of organizational performance, lower operating expenses and increased profitability.[9] According to a workforce study by global consulting firm Towers Watson, companies with high employee engagement had a 19% increase in operating income and almost a 28% growth in earnings per share; those with low engagement scores experienced an operating income drop of more than 32% with earnings per share declining by more than 11%.[10] A meta-analysis by Gallup[11] comparing business units with engagement scores in the top quartile to those with bottom quartile scores shows significant differences in business results, including a difference of 18% in productivity, 16% in profitability, a 37% difference in absenteeism and a 25-49% difference in turnover (based on the particular industry). Given that personnel costs can range from roughly 50% to over 70% of an MFI's total operating expenses,[12] improved human capital management practices can have a direct impact on an MFI's operating expense ratio and by extension, its profitability.

In addition to the clear connections to efficiency, sustainability and profitability, improvement in employee engagement also has direct ties to the social mission of an institution. Leaders in the microfinance sector have identified guidelines, practices and principles that acknowledge this link between the human capital management practices of an MFI and its ability to address poverty. The SMART Campaign maintains "Ethical Staff Behavior" as one of their six core Client Protection Principles to "help microfinance institutions practice good ethics and smart business."[13] In addition, the Social Performance Task Force, in conjunction with the MIX Market, has developed a list of 11 indicators to measure an individual MFI's social performance. The sixth indicator category is "Human Resources and Staff Incentives" which includes measurements of

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[9] Gardner, Moynihan and Wright (2003), "The Impact of HR Practices on the Performance of Business Units."
[10] Towers Perrin Global Workforce Study 2007-2008, Global Report
[11] J. Harter, F. Schmidt, and E. Killham. Q12® Meta-Analysis: The Relationship Between Engagement at Work and Organizational Outcomes, 2009 Gallup, Inc
[12] MIX Market. "Microfinance Benchmarks for MFIs." Microfinance Information eXchange. http://www.mixmarket.org/mfi/benchmarks/unadjusted/2009/0?mix_region__c=All&country__c=All&current_legal_status__c=All (accessed February 7, 2011).
[13] SMART Campaign, "The Client Protection Principles." http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles (accessed June 16, 2011).

HR policies, staff turnover rate, and staff incentives linked to social performance goals.[14] While further work must be done to truly capture the impact of these specific indicators on poverty alleviation, both sets of principles can be traced back to the basic idea that staff who are more engaged and empowered to act on an institution's social mission will be more committed to positively impacting the lives of those they serve.

Strong employee commitment and engagement levels are the result of a number of different factors, and may differ from one institution to the next.[15] While it's important to clearly identify the human capital management drivers of business results for each organization, extensive research has identified some common themes.[16] The factors driving employee commitment may be surprising to many MFIs. These include clearly understanding expectations, having the right tools and materials to perform, opportunities to leverage individual strengths, having supervisors who care about them, feeling proud about the organization's mission, being recognized for doing a good job, and being able to express their opinion, among others.[17]

The great news for MFIs is that addressing these drivers of engagement does not have to be an enormous undertaking. What <u>is</u> essential is the recognition and commitment by senior leaders that change is necessary. Giving employees the opportunity to discuss challenges and opportunities, making sure that they have the resources they need to meet expectations, and instituting a regular schedule of performance discussions are all fairly easy to do. Treating employees in the same, caring and transparent manner that the organization expects clients to be treated will go a long way to both foster increased levels of commitment to the organization and reinforce employees' understanding of the organization's brand.

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[14] MIX Market. "Social Performance Indicators." Microfinance Information eXchange, http://www.themix.org/social-performance/Indicators (accessed June 16, 2011).
[15] L. Bassi and D. McMurrer. Does Engagement Really Drive Results? Talent Management Magazine, March 2010
[16] Society for Human Resource Management (2010). "Motivation in Today's Workplace: The Link to Performance" Research Quarterly. Second Quarter – 2010.
[17] The 12 Elements of Great Managing, Gallup Inc. 2010

Ujjivan

Ujjivan, a large MFI based in Bangalore, India that provides a holistic range of services to poor working women in urban and semi-urban areas, was ranked #14 (and #1 in MF) out of the 100 best places to work in India, by the Great Place to Work® Institute Inc. (GPTW). GPTW surveyed over 400 organizations across India to identify the top 100 employers[1]. The employee survey tool measures the levels of trust, pride, and camaraderie within the workplace. Employee responses to this instrument comprise the majority of an organization's score for the List of Best Companies To Work For.

Ujjivan moved up from #100 overall in last year's survey, despite the major challenges that have faced the MF industry in India this past year.) Ujjivan made the commitment to keep employees engaged and feeling positive through the challenges that the industry faced. One of the key ways they accomplished this was by focusing on communication across the organization, helping employees in the field manage questions and issues raised by customers and other stakeholders. A set of frequently asked questions was provided to all field employees that a) helped them understand the organization's stance and response to field issues and b) helped them to be consistent and address client concerns. Concerns around job security and rumors around the imminent collapse of MFIs and the industry were not brushed aside, but handled with care and information. The CEO shared his analysis of the crisis and what the next few months would be like – providing specific, transparent and clear direction on how the organization would respond to the challenges.

The organization also chose not to cut back on spending for training and staff loans, even during the crisis. In keeping with its philosophy of Employees First and Customers Second, an employee stock ownership plan was rolled out across the organization at certain levels. Employees understood that Ujjivan was working to make their lives better, not just the lives of their clients.

Planning for Performance

One of the most critical drivers of employee engagement and commitment is an understanding of how one's individual efforts support organizational goals. Too often we have seen that even mid-career managers cannot easily articulate the MFI's strategic objectives and are rather unclear about the organization's plans beyond the expectations for their own performance. Employees want to make a difference and organizations need to enable and encourage this to ensure they are maximizing the value of their people.[18]

[18] Knowledge@Wharton. (2010, February 17). "Putting a face to a name: The art of motivating employees" http://knowledge.wharton.upenn.edu/article.cfm?articleid=2436 (accessed June 20, 2011).

Creating this line-of-sight starts with developing a robust performance planning process where broad organizational goals and objectives cascade down to the various business units and functional teams. These teams then translate their supporting goals and objectives to all team members, where individual performance objectives support the team's goals. This process results in *proactive* planning, which is then supported through structured, regular check-ins to confirm progress and identify any course corrections or additional support required. The annual performance reviews are then simply a summary of all the discussions during the performance period, with no surprises. In this way MFIs can begin to maximize the contributions of all their employees.

Just as important as quantitative targets tied to strategic objectives are the behaviors or the <u>way</u> these targets are to be achieved. Often organizations shy away from qualitative performance measures, believing these to be more subjective and less transparent. It is also simply harder at first to define qualitative dimensions of performance. But it is important to focus on these dimensions as well, especially in such a people-intensive business as microfinance. A truly robust evaluation of an employee's performance will include observations that include not only the technical, but also the organizational and personal competencies needed to excel in that role.[19]

Women's World Banking has developed a Competency Framework along with a Directory of Competencies that outlines the process an MFI might undertake if they are to begin to formally establish the behavioral competencies needed for the varying roles within their institution. This process involves three key steps: the identification of key competencies needed to deliver effectively on business strategy; the definition of each competency and the associated behavioral manifestations at varying levels of the institution; and the identification of the most important competencies for each job profile (resulting in comprehensive and consistent job descriptions for each role in the institution). Throughout this process, there is an important emphasis on "observable and

[19] Zacarias, Cecille and Sandra Togonon (2007). "Building Human Resource Capacity: Developing Competencies for Microfinance Institutions." Women's World Banking.

demonstrable behaviors" as the goal is to establish guidelines for performance management that are measurable.[20]

Leveraging Strengths

A discussion of planning for and assessing performance is not complete without addressing employees' strengths. Historically, performance evaluations have focused on identifying weaknesses and exhorting the individual to "work harder" to overcome these. We now know that this focus on deficiencies does not result in improved performance. Rather it creates defensiveness and makes it even *less likely* that positive change will occur. While a basic level of competence in a particular area may be required, it is when people are able to do *what they're best at* that great performance occurs.[21] It is not difficult to shift to a focus on strengths, but it requires a commitment from the top (as does so much of what we've discussed) to help the organization learn how to do this. Managers and employees must discuss individual capabilities in order to identify strengths, and have the flexibility to allow employees to draw on their strengths in their jobs. One way to do this is to adjust responsibilities within the team in order to give individuals the opportunity to do what they are best at. Here is what it can look like in practice: consider a typical branch office with a branch manager, teller, MIS officer and five field officers. While there are core responsibilities that must be met by each field officer, there may be other aspects of the job that can be shifted between team members so that everyone is able to contribute *what they do best* to the team. Depending on an institution's customer base, field officer responsibilities can be segmented between loan types (group vs. individual) or between lines of business (agriculture lending vs. petty traders) and field officers who demonstrate expertise in supporting one type of customer over another can focus their client portfolio accordingly. Field officers with a particular interest in computers could be cross-trained to cover for the MIS officer. Senior field officers who have shown an exceptional ability in mentoring their more junior counterparts could be tasked with training responsibilities for new hires in the branch.

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[20] Ibid.

[21] Roberts, L. M. et al. *How to Play to Your Strengths*. Harvard Business Review, January 2005.

However, a critical component to any of the examples above is shifting the performance targets for each role accordingly. A field officer tasked with serving as a mentor for all new hires at the branch might not be expected to hold the same number of group meetings each day as someone without that additional responsibility. Similarly, a field officer responsible for individual loans might not be able to maintain the same number of clients in his or her portfolio as someone dedicated to group loans. By managing to each employee's strengths, managers have an opportunity to allow each person to do what they do best and subsequently provide added value to the team.

Leveraging Strengths – Best Buy

Best Buy has done an exceptional job of managing to employee's strengths and has become what can be referred to as a "Strengths Based Organization," striving to create an environment where all employees can do their best work. This US-based global consumer electronics retailer has committed to integrating into its performance management process a Clifton StrengthsFinder® assessment, modeled after the work of Marcus Buckingham and Donald Clifton.[1] Rather than focusing on technical skills that can be learned, the strengths identified in this particular assessment go to the core of areas employees are inherently talented in, such as analytical ability, discipline, empathy and communication.[1] Employees have the responsibility and power to discover and leverage their unique strengths in their job responsibilities and development opportunities. Critical to this process is the employee-supervisor relationship. Best Buy re-designed many of their performance and development tools to include goals and feedback mechanisms, as well as integrating an explicit opportunity to discuss strengths. After implementing this approach, turnover decreased to a level unprecedented in the company's history. As employees were given more of an opportunity to do what they do best, employee-driven innovation also increased and played a critical role in opening up new potential for the company as a whole.

Creating Opportunities for Learning

A crucial part of planning for performance is identifying the additional skills and competencies that are needed to deliver the level of performance desired. And beyond identifying the development needed, the organization must help the individual achieve this level of learning. It is incredibly frustrating to set a target to acquire a new skill or expand one's competence and not have the resources or understanding of how to go about doing so.

MFIs are good at identifying the technical skills needed in different operations positions, whether it is a certain level of analysis required to track portfolio performance or to assess credit risk. And they may offer skills-based training from time to time. But sometimes fast growth or other organizational challenges interfere with the planned training schedule and before they know it, a year has gone by and this basic skills training has not been offered.

Strong managers see the development needed and look for ways to provide it for their employees, without waiting for formal training sessions to occur. They use more experienced individuals as informal teachers, and give employees stretch assignments to help develop new capabilities. One regional manager in India described an assistant branch manager he thought was ready for his own branch. “He is lacking in confidence and doesn’t think he is ready. So I assigned him to a branch nearby as a temporary branch manager (as the incumbent was deployed temporarily elsewhere) so that he has to do the job but feels safer because it isn’t permanent.” Yet.

Most learning can (and does) take place in these informal ways. But to provide it consistently and in enough quantity to meet organizational needs, an intentional, planned process must exist for managers and staff to follow.

This process can take many forms. For example, regional managers can bring all of their branch managers together on a regular basis to share success stories and challenges, bringing the collective wisdom of the group to help identify solutions. Experienced field officers can be chosen to participate on a new branch opening team or deployed as needed on a temporary basis to establish new branches and train staff. And field staff can be tapped to assist with market research efforts, whether identifying the potential of a particular market area or helping to test new products and services. These are all opportunities for learning on the job, without having to attend a formal classroom training program.

HCM Policies and Practices that Support Performance

Despite the best of intentions, sometimes current human capital management policies or practices can get in the way of maximizing performance. Perhaps the most common ones are those that link promotional opportunities to time in grade or educational level. While it is appropriate to establish minimum time requirements in one's current role before being eligible for promotion or transfer, these should be realistic requirements that support the needs of the business. Expecting a star performer to stay in a job for 2 years before being given the opportunity to post for a new role denies the organization the benefits of his or her capabilities and may lead to the individual seeking a new opportunity outside the organization. And we've seen many very competent field employees who have been denied promotion to branch manager simply because they weren't able to continue their education past a certain level. It is important that MFIs create policies based on business need and not on what they typically experience. The smart, capable young field officer whose family circumstances precluded college could at some point be the next star regional manager.

Differentiating base salary compensation based on individual performance is also important, though it may be contrary to accepted pay practices. Without the ability to reward top performers and send a wakeup call to those who are not performing, there is little incentive to strive to do one's best besides the intrinsic desire to achieve. Compensation structures must deliver basic salary levels that are somewhat competitive with the local market (each organization will determine its own pay philosophy in this regard) and that provide the individual employee the means to meet basic family needs. But beyond that, pay levels should reflect the value the individual creates for the organization. These types of compensation programs do not have to be complex or difficult to administer, but they do require a robust performance planning and management process. And for any compensation system to be effective, there has to be a periodic evaluation of the local labor market and pay practices.

Pay for Performance – Hindustan Unilever

Hindustan Unilever, India's largest consumer goods company, has adopted a pay for performance system, recognizing that tying employee bonus compensation to both company and individual performance can be a strong motivating force. Hindustan Unilever provides each employee with a fixed salary, variable salary (linked to company and individual performance), and equity compensation (linked to long term company performance and individual potential). Each of the variable components are paid once annually at the close of the fiscal year.[1] In 2011 the company paid out record bonuses after a two-year freeze that had been applied to senior management level employees. The company's CEO, Paul Polman, recognized that along with tying pay to performance he had to give each local manager the opportunity to make decisions for their own local market – thereby making them ultimately more responsible for their individual performance. This decentralized decision-making along with the strong incentive of the pay for performance system is credited with making Hindustan Unilever a more agile company, better able to respond to changes in market conditions.[1]

Organizations must treat their staff in the same way they want their staff to relate to their clients—in a caring and transparent manner. Making this "brand promise" real for employees means that they will better understand how to be a credible extension of the organization's brand in the marketplace. For example, if an MFI chooses to differentiate itself through a simple and streamlined credit application process, requiring staff to go through multiple layers of management to have a time off request approved seems counterproductive. Or, if the organization prides itself on its client financial education efforts in order to provide as much transparency as possible, but the criteria for promotions or salary increases are not communicated clearly and consistently followed, the MFI has lost a great opportunity to reinforce its values and brand. Changing existing practices and policies requires an awareness of these inconsistencies and a commitment on the part of the senior executives to want to change.

A specific component of many institutions' brand promise is tied to who their primary target market is – microfinance has historically focused on serving poor women clients and is recognized as a powerful force for female empowerment. Many institutions understand that having female staff is important to service this market, as they are often more immediately able to establish rapport and can serve as strong positive role models. Across industries, an increase in gender diversity has also been connected to positive business outcomes.[22] However, a 2009 Women's World Banking study found a declining number of women in leadership roles at MFIs.[23]

In order for MFIs to cultivate an organization with strong female representation throughout all staff levels, some common practices need to be reviewed. Institutions should analyze turnover rates among their female staff and endeavor to understand the factors that contributed to their departures. MFIs should also identify the major challenges their current female staff face, and work with an internal task force to explore changes in policies and practices that will better support their continued employment and availability and readiness to assume greater responsibilities. In some cases, this may mean either establishing daycare centers within the MFI's facilities or partnering with external providers to enable female (and some male!) employees to access to convenient, safe, and affordable child care. Or perhaps maternity leave benefits need to be enhanced, to prevent new mothers who are field officers from returning to work with their babies before it is medically safe to do so. MFIs may also find that their current practices actually inhibit the advancement of female staff. The practice of rotating field officers from one branch to another, often seen as a strategy to reduce the risk of fraud as field officers become more familiar with their clients over time, can be much more of an onerous policy for female staff members who are often less able to move far from where their families live. In cases such as these, MFIs must evaluate whether the benefit of these practices truly outweighs the cost of losing female talent.

Putting Intention into Action

So where should an MFI begin if it wants to maximize individual contributions and leverage internal talent in support of strategic objectives? We believe a careful, detailed assessment of current human capital management policies and practices will form the

[22] Carter, Nancy M. and Harvey M. Wagner (2011). "The Bottom Line: Corporate Performance and Women's Representation on Boards (2004-2008)" Catalyst, March 2011.
[23] Lynch, Elizabeth (2009). "Transforming the Landscape of Leadership in Microfinance: Maintaining the Focus on Women." Women's World Banking.

foundation for change. It is important to understand what is working and what is not, so that the organization focuses on the *right* levers of change.[24] Organizations can undertake this process themselves if they have the internal resources, or can look to external support. Once this baseline assessment is completed, the organization will be able to determine the priorities for action that should yield the biggest return on effort. Choosing what to focus on first should be driven by the organization's unique strategic needs. As has been discussed above, much of this work can and should be done (or managed) internally. For it is the commitment from the top, combined with modeling the desired behaviors, that will ensure real change is implemented and sustained.

[24] HCM Assessment, Grameen Foundation, www.grameenfoudation.org/humancapitalcenter

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