Bottleneck for Growth: the Human Capital Issue

Conversations with MFIs' CEOs and HR Managers yield insights about how their human capital management processes are not keeping pace with their growth and plans.

The development finance industry is increasingly recognizing the value of human resource "bottleneck," which occurs when experienced managers are difficult to find and retain. HR departments lack tools and systems to service growing staff. Limited data are available for training and skills enhancement and there is almost no knowledge sharing around best practices. According to HR sector analysts, in order to meet the anticipated demand for management talent, the industry will have to hire 12.5 million new loan officers, assuming a loan officer to client ratio of 1:100.

This bottleneck threatens to constrain the growth, success and development potential of high-growth microlending and small business finance providers.

ShoreCap Exchange and Grams Foundation have both witnessed their partner banks and microfinance institutions struggling with these challenges. In 2007, they worked with Microfinance Development Association (MEDA) to survey a number of microfinance and small business finance institutions around the world to pinpoint the exact HR gaps facing the industry.

Survey Response Rate:
Two surveys were conducted: one that focused on CEO level respondents and another that focused on human resource managers. Seventeen CEOs responded from Asia, Africa, Latin America, and Eastern Europe. Additional information was gained through in-depth interviews with two CEOs and one Deputy CEO.

Twenty-two institutions responded to the Human Resource Manager survey, again representing all regions. Information contained in the questions was supplemented by in-depth interviews with three HR Managers. In the survey analyses, references to "HR Managers" refer to the group of survey participants. Thirteen institutions completed both surveys (CEO and HR Manager).

In total, twenty-five different institutions completed at least one of the two surveys or participated in the phone interviews.

"Less than half of the institutions surveyed had a system in place to address the challenge of adequate staffing alongside organizational growth.

Consensus HR is Integral to Organizational Strategy
Among the twenty-five institutions surveyed, there were broad differences in HR management structures, decision-making methods, and the level of inclusion of HR in the strategic planning of the institution. Despite these variations at the organizational level, there was a surprising level of consensus about the most urgent HR challenges facing the institutions and the needs that required attention. Seventy-five percent of CEOs cited HR as a "top priority" for their institution.

All CEOs and HR managers reported that they included HR in the strategic planning for their institution.

Current systems fall short
Despite the rapid growth of these institutions and agreement about the importance of HR, less than half of the institutions surveyed had a system in place to address the challenge of adequate staffing alongside organizational growth. As a result of the survey, the sector offers little in the way of career planning or a clear advancement strategy for staff, the survey found that nearly 80 percent of the organizations had not professional development for staff in place, and they were in place, they were incomplete or not used. About 40 percent of organizations surveyed had not implemented or put in place formal training policies. Consequently, these areas in the top three HR needs of the majority of institutions. Finally, compiling the retention issues echoed throughout the sector, thirty percent of the organizations surveyed did not have an extensive system in place, or if had been created, it was incomplete or not used.

Priorities vary between CEOs and HR Managers
There was disagreement between CEOs and HR managers on the top ten HR challenges and the barriers MFI faces in improving HR management. In order of priority, more CEOs cited the need for HR information systems or automation of current HR systems, i.e., technology issues, whereas HR managers cited that staff capability building and training was their main concern.

CEOs also voiced concern about the lack of HR management capacity of MIT managers and "increasing competition for talent in the market." HR managers felt the lack of qualified candidates for open positions was also of concern.

More research is needed to better understand the differences in view point, but the survey faculty points to the need for more communication between HR managers and their CEOs about the challenges their projects face in HR management and strategy within the institution.

Best Practices Information Gap
The survey demonstrated that building HR management capacity is a serious challenge. Although there are some service providers, such as training centers, management programs and consulting companies, there are few tools, resources and training focused on HR for the sector. There was an articulated need for better practices sharing and the development of HR tools and resources.

Urgent Need: Training and Technical HR Assistance
The survey asked both CEOs and HR managers how urgently they require training or technical assistance, relative to other institutional priorities and needs. Seventy-five percent of CEOs cited that training and technical assistance (TIA) in HR was a "top priority" among the most urgent needs of their institutions, while only about half of HR Managers selected HR as a top priority.

With best training, Improved Systems
In order to determine if the types of assistance MFI are most interested in obtaining, HR managers were asked a list of possible tools or interventions in HR, and asked to choose the three that would be most helpful for their institutions. The results are shown in Chart 2. They closely follow the open-ended responses from CEOs and managers about their priorities for technology or management information systems (MIS) and training for staff managers both ranking high on the list of both sets of responses. A guide or manual for best practices in HR in microfinance institutions was also ranked as being of high importance for HR managers.

Build Locally. Spend More on Training,
MFIs and small businesses have accessed external assistance on HR management from a variety of providers, but did have a preference for locally provided services. Likely for the cost benefits and the knowledge of local operating environment. For training on HR, they were evenly divided between international and regional training opportunities for staff. Despite the financing constraints, more than half of MI had paid full or reduced rates for training and other technical assistance on HR management topics at least once in the past two years. Most institutions (two-thirds of CEOs) said they planned to supplement their own HR budgets with outside funding.

Conclusion
Industry players—microfinance and small business banks, capacity building organizations, training groups, experts, investors and donors—can work collectively to develop resources that would be accessible to the entire community. Creating awareness among these institutions about best practices and benchmarks will help peer groups and other industry leaders to be a significant first step to developing realistic solutions.