

# 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 its human resource "bottleneck": skilled middle and senior managers are difficult to find and retain; HR departments lack tools and systems to service ever-growing staff; limited resources are available for training and skills enhancement; and there is almost no knowledge sharing around best practices. According to some industry estimates, in order to meet the anticipated demand for microfinance, the industry will have to hire 12.5 million new loan officers, assuming a loan officer to client ratio of 1:300. This bottleneck threatens to constrain the growth, success and development potential of high-growth microfinance and small business finance providers.

ShoreCap Exchange and Grameen Foundation have both witnessed their partner banks and microfinance institutions struggling with these challenges. In mid-2007, they worked with Mennonite Economic Development Associates (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 Africa, Asia, 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 questionnaires was supplemented by in-depth interviews with three HR Managers. In the survey analysis, references to "HR Managers" refer to this 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 through telephone interview.

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## 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 areas that needed more attention. Seventy five percent of CEOs cited HR as a "top priority" for their institution.

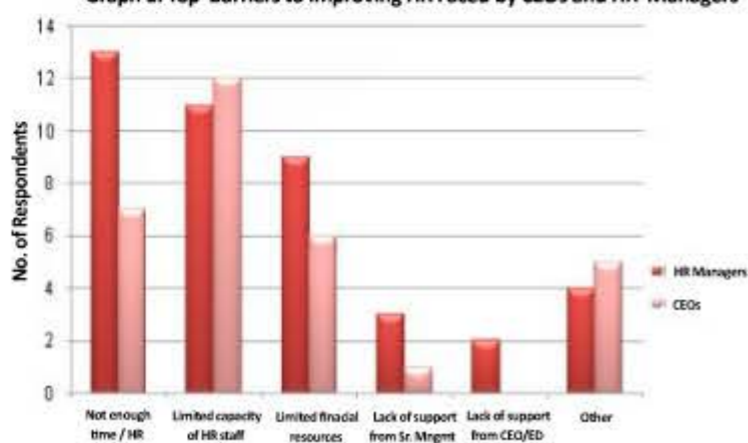
All CEOs and HR managers reported that they included HR in the strategic planning for their institution.

Consuela Dantes, HR Manager at Planters Bank explained, "We believe that the success of a good strategy is largely dependent on excellent execution. People will execute. People will make the plans happen. It is therefore a must that HR needs are incorporated into the planning process. Do we have the talent? Do we have enough talent? Is our talent motivated to execute well? Are they trained to execute well? How will we retain our talent so that there will be no disruptions in execution [of the strategy]? These are strategic HR concerns that will have a significant impact on the success of [our] plans, and ultimately, the organization."

## 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 further evidence that 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 did not have professional development procedures for staff in place, and if they were in place,

Graph 1: Top Barriers to Improving HR Faced by CEOs and HR Managers



they were incomplete or not used. About 40 percent of organizations surveyed had not implemented or put in place formal training policies. Accordingly, these areas ranked in the top three HR needs of the majority of institutions. Further compounding the retention issues echoed throughout the sector, thirty percent of the organizations surveyed did not have an incentive system in place, or if it had been created, it was incomplete or not used.

## Priorities vary between CEOs and HR Managers

There was disagreement between CEOs and HR managers about the top HR challenge and the barriers MFIs face 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 said that staff capacity building and training were their main concerns. CEOs also voiced concern about the "lack of HR management capacity of MFI managers" and "increasing competition for staff 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 difference in viewpoint, but the survey initially points to the need for better communication between HR managers and their CEOs about the challenges each group is facing 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 toolkits, resources and trainings focused on HR for the sector. There was an articulated need for best 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 insti-

Graph 2: What Type of Assistance Would be Most Helpful to You to Improve Human Resources Within Your Institution?



tutional priorities and needs. Seventy-five percent of CEOs felt that training and/or technical assistance (TA) 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.

## Wish List: Training, Improved Systems

In order to determine the types of assistance MFIs are most interested in obtaining, HR managers were given a list of possible tools or interventions in HR, and asked to choose the three that would be most helpful for their institution. The results are in Graph 2. They closely follow the open-ended responses from CEOs and managers about their priorities with technology or management information systems (MIS) and HR training for staff managers both ranking high on the lists of both sets of respondents. A guide or manual for best practice 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 business banks 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 equally divided between international and regional training opportunities for staff. Despite the financing constraint, more than half of MFIs had paid full, unsubsidized rates for training and/or 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 from both peer groups and other industries would be a significant first step to developing relevant in-house competence.

Industry networks and associations are increasingly working on various fronts to address some of these gaps. Both ShoreCap Exchange and Grameen Foundation are committed to focusing on these issues and bringing valuable tools and resources to the industry.

Urmi Sengupta is the Vice President, Knowledge Exchange at ShoreCap Exchange in Chicago, USA. Kate Druschel is the Regional Coordinator, East and Southeast Asia for the Grameen Foundation. To learn more about ShoreCap or the Grameen Foundation, visit [www.shorecapexchange.org](http://www.shorecapexchange.org) and [www.grameenfoundation.org](http://www.grameenfoundation.org).