

Making a Social Impact – Can Human Resources Management Help an MFI to Fulfil its Mission?

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In July 2001 I started working with Prizma, a microfinance organisation operating in Bosnia-Herzegovina, to help strengthen Human Resources Policy and systems. Prizma's mission is **to improve the well-being of poor and low-income women and their families by providing long-term access to quality financial and non-financial services**. Prizma had just achieved financial sustainability, thus meeting the second half of their mission (providing long-term access to quality financial and non-financial services) but management were concerned that they were not reaching poor and very poor people as effectively as they could to make a social impact.

At the time the mission statement was created, all staff had been involved in the process to some degree, but Prizma's staff has been expanding over the last few years and many new employees had not been involved in creating the mission. The organisation was spread across three branch locations (now four) in Bosnia-Herzegovina and although each decentralised branch was operating well as an autonomous unit, it was unclear to what extent employees felt that they were all part of the same organisation. Small things such as the fact that different versions of the same leave request form were in use in different branches suggested that divergences were occurring – not intentionally but because maintaining a sense of unity across geographically dispersed locations is difficult.

In November 2001 we ran an employee motivation and communications survey across the organisation. All employees at the time, management and non-management alike, completed the survey. The findings were fascinating. They also revealed what we had suspected - that many employees did not understand the organisation's objectives or its plans for the next three years. How could Prizma expect its employees to reach poorer clients if its employees were not aware that this was expected of them?

To make things harder, there is very little data on poverty in Bosnia-Herzegovina. In a post-conflict environment many traditional measures of poverty such as education levels and housing standards are not relevant and little statistical data had been gathered since the early 1990s. So what indicators should staff be looking for in order to reach poorer people, and how can the organisation measure its impact?

The first part of this presentation will deal with those areas of organisations where HR management can be used to promote an organisation's pro-poor mission, such as recruitment and selection, induction and employee development. The second part will cover performance management and reward systems and how these may be conflicting with the organisation's mission.

1. Recruitment and Selection

It is almost taken as a given in the UK, and I am sure many other western European countries, that people who apply for national positions with non-profit organisations will already know a great deal about the organisation, believe in its mission and share many of its values. The lower salaries offered by such organisations, either for ethical reasons

or because of lack of funds, tend to result in a clearer self-selection process than in the private sector.

However, in the post-conflict, post-communist labour market of Bosnia this whole system is turned on its head. The government is forever running out of money and often cannot pay the wages of many public employees on time, the private sector is very much in the embryonic stages and in the non-profit sector there is a predominance of international NGOs paying relatively high salaries. A number of microfinance organisations started their life as projects of international NGOs, and therefore tend to offer better salaries than can be found elsewhere. Additionally those that become sustainable offer long-term employment, unlike those posts funded by foreign aid that must end at some point when funds dry up.

Thus a microfinance organisation may well be offering highly attractive job prospects and any self-selection of people committed to the organisation's mission that may occur elsewhere will not necessarily occur here. A job pool may well resemble the equivalent job pool for a position in the private sector in Western Europe. However, recruiting and selecting people to fill new or existing positions remains a crucial activity in terms of supporting an organisation's mission for three reasons.

Firstly, new staff provides management with an opportunity to acquire new skills. Secondly, the recruitment of new staff gives management a chance to adjust attitudes and cultures within an organisation. Thirdly, poor selection can be very expensive in terms of time required to deal with disciplinary cases, retraining poor performers and replacing those individuals who have been wrongly selected and choose to leave soon after starting work.

So how can organisations avoid recruitment problems and find recruits who share or support their values?

➤ Job analysis/job descriptions/person specifications

First, it is necessary to check that there is still a need for the position as the position was probably created at a time when the working environment was different. In order to do this the organisation should ask 'what resources do we need to achieve our strategy?' If it is established that the position is still relevant to the strategy (and thus the mission), the job description and person specification should be reviewed. If part of the job is to seek out poor clients this should be made clear here. If the employee is expected to work with very poor people, the person specification should indicate that the successful applicant would be committed to working with poor people from all backgrounds, and so on.

➤ Internal Recruitment

One way to fill posts is to seek internal candidates. This provides continuity for the organisation and creates an internal promotion market, which can be a strong motivator of employees. It is worth noting here, however, that careers appear to represent very different things in Bosnia from what they represent for many in Western Europe and the US. For example, the work-life imbalance that exists in the UK, within NGOs and the corporate private sector, is not common in Bosnia where many employees view job security as primary in importance and opportunities for advancement as secondary, even where the organisation needs and encourages staff to take on more responsibility. Promotion may also require employees to relocate – another aspect of working life that is far more common in Western Europe.

Prizma recognised the value of internal promotion in supporting the organisation's mission and strengthening continuity and efficiency. So we looked at ways of

encouraging existing employees to take on greater responsibility in support of geographic expansion. As a result, we introduced a relocation policy which provides existing employees with financial and non-financial support when they relocate at the request of the organisation. Additionally, employees who take on the extra responsibility of opening a new branch receive a branch opener incentive as a one-off payment upon completion of their first year in the new branch. This recognises the extra responsibility and hard work involved in this task.

➤ Advertisements

The job description and person specification form the basis of any job advertisement and thus the organisation has another chance to re-emphasise the values it seeks. Additionally, by putting the mission, or paraphrasing it, in the advertisement applicants are encouraged to screen themselves. Where the advertisement is placed will also affect who applies, although the third sector press is not developed in countries like Bosnia as it is in Western Europe. If the organisation has a web page, directing applicants there will also give them a chance to get to know the organisation better and understand where it is going.

➤ Interviews

As with the advertisement, interviews give applicants a chance to work out whether they share the same values as the organisation, in addition to the organisation assessing the candidates. It is in the interest of both parties to make a good match. Much research has been done which proves that employees who support or share the same vision as the organisation are better motivated and more productive.

2. Induction

Irrespective of whether or not a formal or structured programme is in place, all employees go through an induction on joining a new organisation or department. In many organisations, especially those that do not have a specialist human resources function or manager, this can be little more than a brief greeting before being shown to their place of work. Not only does such an approach greatly increase the risk of employees leaving soon after hire, at great cost to the organisation as mentioned before, the organisation also misses a great opportunity to focus employees on its mission.

Most formal inductions explain the tasks that are expected of the new employee and introduce them to other staff. However, a smarter employer spends more time exposing new employees to the organisation's culture, mission, and social and business values, thus orienting them in the same direction as the organisation. Induction can foster a feeling of belonging, which develops a commitment to organisational goals. The employer then maximises the contribution of the workforce and gets a faster return on investment.

One of the first things I turned my attention to at Prizma was the induction process. Although all employees had undergone a formal induction process on joining the organisation, there was nothing standard across all branches. In addition to ensuring that all staff received the same information on joining Prizma, the changes we made to the induction process included adding a visit to headquarters. Now all new recruits come to Mostar within a few weeks of joining the organisation and meet the executive director, who talks to them about the organisation's mission and strategy. We try to arrange things so that new employees in all offices come at the same time. Not only does this give them a chance to learn about the organisation's strategy, but it also introduces them to other branch staff and headquarters staff, reinforcing the idea that they are all part of the same organisation, no matter where they are based.

These changes occurred several months prior to the Prizma employee survey being conducted. Between these two events, there was a period of fairly intensive recruitment. Interestingly, when employees who had worked for Prizma for less than one year were asked if they understood the organisation's objectives their answer was a very strong 'yes', a much more positive response than we obtained from longer serving non-management employees. The new recruits also expressed stronger pride in working for the organisation than their longer serving counterparts.

3. Training and Development

Training and development also has its place in helping an organisation to fulfil its mission. As a first step, it can ensure that new employees have the necessary skills to do their jobs. In a country with an underdeveloped financial sector, new loan officers cannot be expected to have previous microfinance experience. In fact experience suggests that it makes more business sense to hire bright inexperienced people who have the right aptitudes, on lower wages, and train them in the specialist skills of microfinance. Thus, good new joiner training is essential for a microfinance organisation to maximize its day-to-day work and achieve its long-term objectives.

The organisation should also ensure that its training plan matches its business strategy, so that it has trained staff internally where it cannot or does not wish to hire externally. The staff should grow with the organisation. Furthermore, it is important to ensure strong development of management, as management is the lever to change or reinforce the organisation's philosophy. Part of this process involves ensuring that the managers' capacity grows over time and that in addition to increasing their technical knowledge they become strong leaders.

The employee motivation and communications survey responses demonstrated that employees at all levels receive good training at the start of their employment. Not only did they rate the training highly; they also felt comfortable doing their jobs, indicating that the training meets their needs to do their day-to-day jobs. However, non-management employees also made it clear that they would like more training subsequently.

Managers, on the other hand, said that opportunities for learning new skills were good. Much of the training attended by management staff gives them wider perspective on the microfinance environment and gives them opportunities to network with other people working in the sector. Managers responded that they clearly understood the purpose of the organisation and its plans for the next three years. Continued investment in training reflects continued investment in the employee and a belief that the employee is highly valued and has a long-term career with the organisation. Managers clearly appreciate that the organisation is committed to them and return this commitment, which adds to their motivation.

4. Employee involvement

Organisations can also help to align employee behaviour to the mission by adopting a participative style of management and engaging employees broadly in development of the organisation and its plans. By seeking out opportunities for direct and indirect involvement in decision making, organisations increase employees' understanding of the organisation, utilise their talents, enable them to influence decisions, and encourage commitment to the goals of the organisation. Other benefits include improved efficiency, improved quality and competitiveness, increased job satisfaction and motivation, and more co-operation.

Effective communications are essential for the success of employee involvement and for strong staff morale and commitment. It is important to create the right climate and maintain communications systems which aid a free flow of information within an organisation. However, communications have long been recognised as a challenge by Prizma, not only because of the nature of the jobs many employees are doing – field staff who spend much of their time away from the branch and from other colleagues – but also because the branches are geographically dispersed. This was confirmed by the employee motivation and communications survey. Although all employees felt to a lesser or greater degree that they could speak openly and frankly, many felt they could be kept better informed.

Additionally, many non-managers did not recognise opportunities to contribute to and give feedback on planning for the organisation as a whole. In fact, longer serving staff had been involved in planning on various occasions but did not necessarily recognise this as substantive input. Below are some of the steps Prizma is taking to improve communications and employee involvement.

➤ Survey

The survey alone was a first step. It demonstrated to employees that the organisation wanted to hear what they had to say on important matters such as planning, communications and performance management. It also asked them about more personal matters such as compensation and benefits, and how they felt about their branch and their supervisor.

➤ Employee Website

To improve external communications, Prizma has just launched a new external website which addresses the information needs of key external stakeholders. In parallel we have developed an internal employee website which will be used as a vehicle for HR management. The employee site will, amongst other things:

- Provide a communications forum for all employees through newsletters, bulletin boards, etc
- Allow the organisation to store documents centrally so that all employees have access to the same version of policies and procedures, forms etc
- Give employees access to more information about what is going on in other branches and about organisation objectives and strategy

Additionally, all employees will receive email accounts. This means communications can go directly to employees rather than through their managers. The allocation of email accounts also suggests to employees that they are valued members of staff.

Although email is not central to the organisation's outreach, and not typical of most microfinance organisations in the world, the resulting improved communications will help to focus staff on the mission. A clear policy on the use of email should ensure that it is used appropriately and does not distract employees from Prizma's primary objective of ensuring social impact and its facilitating objective of achieving financial sustainability.

➤ Employee Representation

Prizma also plans to introduce branch representatives. The representatives would be non-management staff and would be selected by other non-management staff. Along with the branch managers, they would represent their branch on decision-making teams. This could include attending select management team meetings. The use of employee representatives is intended to provide employees with another means of influencing organisational planning and policy development.

➤ Organisation Retreat

Finally, we are organising an organisation-wide retreat to affirm a team approach to the organisation's work, re-affirm organisational values and provide employees with a forum to share ideas and experiences. Board members are also attending the retreat to strengthen the Board's understanding of the organisation and its staff and so that employees gain a clearer picture of how the organisation fits together, what governance represents, and the role that the Board plays in organisational strategy and oversight.

5. Performance Management and Reward Systems

Performance management aims to link individual goals, team purposes and organisational objectives and as such is instrumental in helping an organisation to fulfil its mission. It is a means of getting better results from the organisation, teams and individuals. Performance Management Systems start with the objectives that the organisation has set in order to fulfil its mission. These are then translated into team or department targets. These targets can then be used to set individual goals.

We have already covered several of the common elements of performance management systems — induction, communications, training and development. The final section of this presentation will look at how employee rewards are related to performance management, and the challenges that an organisation can face.

Reward is not restricted to financial reward but encompasses non-financial reward as well. Indeed there are many people who advocate non-financial reward as a better motivator than financial reward and recognise its power as a long-term motivator – an area in which financial reward is often of little use.

Rewards can be divided into two types - extrinsic and intrinsic. Extrinsic rewards include the common elements associated with compensation such as pay, incentives and benefits. Additionally this should include praise, public recognition and various forms of gifts.

Intrinsic rewards are the self-generated factors that induce people to behave in a particular way. These factors include responsibility, freedom to act, scope to use and develop skills and abilities, interesting and challenging work, and opportunities for advancement and growth.

Although non-financial rewards have greater long-term effect on employee motivation, it is important to emphasise that pay is the strongest message an organisation can send its employees. A well-designed reward system tells employees exactly what the organisation values, and what behaviour and/or results the organisation is prepared to pay for – in an environment like the Bosnian microfinance environment where sustainability is of high importance, this is a very forceful message. No matter how many communications an organisation sends its managers about reaching poor and very poor people, if a manager is being rewarded, for example, for number of loans its branch makes, repayment rate or branch efficiency, then those are the targets they will focus their branch on. The importance of social impact will be recognised, but operating like a business will be perceived as what pays in the end. Additionally, if a loan officer is rewarded on portfolio size, this not only sends a clear message about what is most important, but also creates disincentives to make small loans that might be more appropriate to the needs of poorer clients.

The results of the Prizma employee survey suggested that Prizma is meeting many of the intrinsic needs of employees. Employees at all levels indicated that they were satisfied with their jobs and that they were given scope to decide their own approach to their work. Additionally a strong sense of loyalty to the branch was evident. People were clearly also satisfied with their pay, which left us with the question of what else we could do, beyond the measures already described, to encourage long-term employees to refocus on the mission and increase the assistance given to poor and very poor people.

Currently employees receive base pay, which until recently increased annually based on individual performance. Performance was assessed using fairly generic forms based on job descriptions. Very little weight was given to team working and some reward criteria had little to do with Prizma's primary objectives. Additionally, loan officers receive a monthly bonus based on repayment rate, portfolio at risk, client caseload and loans processed. It is widely accepted that when managing performance you get what you measure, but nowhere in any of this are employees assessed or rewarded on their success in reaching the very poor. There was an underlying assumption that if you extend outreach to poor communities, and ensure loans are small, an organisation will automatically reach very poor people. Additionally, since Prizma serves women exclusively, recognising that women are disproportionately represented amongst the poor and generally have least access to formal employment and financial services, this should also increase the effectiveness of its outreach to the very poor.

However the figures we do have on poverty in Bosnia, using household income as one measure, suggest that while Prizma is reaching poor people, it is not reaching the very poor as effectively as it could. Whilst the organisation may be hiring people who support the mission, and encouraging them to work with poor people, it is rewarding them on their ability to lend money and get it back, with little regard for the characteristics of the client. Prizma's impact research is leading to a strong conclusion that an organisation cannot attract and improve the lives of very poor people simply through demand-driven approaches, but that very poor people must be sought out and motivated to ask for help. When looking at the internal constraints to reaching poorer clients, one factor we cannot ignore is that many field staff have a biased perception of the poor, believing that they will be less likely or unable to repay a loan. The effectiveness of MFIs throughout the world in serving low-income and poor people shows that there is no basis to this perception, but it is clear that many employees are primarily focused on branch operations, and financial and portfolio targets, rather than on reaching large numbers of poor and very poor people. Thus, Prizma is seeking to re-evaluate the incentives it provides for its staff in order to address the tension between the need for strong portfolio quality and growth, and the need to ensure staff are seeking out poor and very poor people.

In order to resolve this conflict, we are now looking at ways of rewarding staff for reaching the very poor, as well as for carrying out operations effectively. There is no suggestion that the monthly loan officer bonus should disappear – it has been instrumental in ensuring Prizma achieved the full financial self-sufficiency critical to its long-term survival. Instead we are looking at ways of making an annual award to all employees whose branches, amongst other things, reach many poor clients. Outreach to the very poor is not the responsibility of loan officers alone - it is the responsibility of the entire organisation. For this reason we are taking a team approach to the new reward system so that all employees, back office and front office alike, have incentives and are eligible for annual bonuses. For example, branch managers are responsible for performance management for their entire branch, and for ensuring that branch staff are effective in reaching poorer clients. In this way, all branch staff are seen as part of a team and will be rewarded for working as a team to fulfil the organisation's mission.

So the new system is intended to reward teams for their ability to meet certain targets, one of the most important being to reach poor and very poor people more effectively,

which brings me to my final point. In order to measure whether each branch is reaching these people effectively we need to be able to define poverty in Bosnia, and then ascertain poverty levels for our clients. Prizma is currently taking part in the global Imp-Act research program which has focused on indicators of poverty. Given the complex and unique nature of poverty in post-conflict Bosnia, it is necessary to use a range of measures to gain a useful and accurate profile of very poor, poor and low-income people. In order for any performance measure to be accepted and adopted by staff it must be clear, simple and fair.

It is also important that the outcome justifies the costs to the organisation. Therefore any performance measures must not only be easy to verify but also low cost to implement and monitor.

Using a mixture of good human resources practices such as recruitment, induction and training we hope to ensure Prizma hires the right people and orients them towards reaching the very poor. The revised reward is then intended to affirm service to poor people and indicate to employees that not only does Prizma aim to make a long-term social impact, it is also prepared to pay for it – the strongest message it can send.