MicroSave Briefing Note # 75

Being Strategic about Human Resource Management

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October 2009

Human Resource Management in Strategy: "Strategy" is a widely used term that means different things to different people. The popular associations are about vision or long-term thinking, broader perspective or big picture and future orientation. Given that Human Resource Management (HRM) is designed to act as a support function, what exactly does "being strategic" entail in this context? At the recent *MicroSave* CEO's Workshop on HRM, Prinny Anderson noted that this meant:

1. Including Human Resource Factors in the Overall Plan

The human resource (HR) function assumes a different role depending on the stage of the organisation's evolution. In the context of microfinance:

- The *growth phase* demands the HRM function to primarily focus on manpower planning, intensive recruitment, management development and technical training.
- In the *product diversification phase*, the recruitment of specialists and managing culture change assumes greater importance.
- When close to *steady state*, retention requirements, managing career path and the development of high potential staff are of greater interest to the organisation.

Further, during the growth and product diversification phase, the HR function needs to consider whether the organisation is structured appropriately to handle the business challenges associated with that phase and if re-organisation is required to respond adequately.

2. Rolling out the Strategic Components of Human Resource Management

The widely acknowledged responsibilities of the HRM function are hiring, induction, maintenance of an employee database, administering pay, deployment of policies, managing appraisal systems and exit formalities. While these are crucial to keep the business going, as the organisation matures, the HRM function needs to keep pace by readying to deploy the strategic HR components:

- *Manpower planning*: A good manpower plan links business development with the people resources required. Among other things, it deals with when and how many people are required at which positions/locations, the relevant skill sets and associated costs. This is the backbone of the hiring strategy, which ensures that the organisation seldom falls short of the required people to run its business.
- *Job market analysis*: Understanding the job market forms the basis of a well-evolved compensation strategy. Issues to consider are availability of skill sets, positioning of the organisation vis-à-vis industry benchmarks, monetary and non-monetary components, fixed and variable components, incentives and innovative ways of compensation, such as ESOPs.
- *Organisational competency development*: As an organisation moves towards steady state, the people development approach needs to consider issues apart from the immediate demands of a job role. A competency-based approach goes beyond the technical demands of a role and helps prepare an individual for future roles. It is possible to incorporate and develop organisation-specific competencies across levels.
- *Talent building*: A future-oriented talent building effort differentiates and applies the appropriate training and development initiatives for leaders, experts and high potential employees. It is an investment in the careers of individuals and helps develop skills that are transferable across roles.
- *Retention strategies*: Increasing competition imposes the huge challenge of retention, especially of high performers. A strategic approach to retention encompasses the entire life cycle of the employee right from the applicant stage to induction to performance management to career path, as well as investment in the employee through training and development.
- *Succession planning*: While the organisation enjoys the luxury of the founder-run executive team, the time comes when there has to be a systematic approach to building the middle management and the second line. At best, this takes a few years to build and it is never too early for succession planning
- *Community and culture*: Organisational culture happens in every organisation. It is up to the management and human resource function to decide the nature of that culture and how it is reflected in the organisation's actions/interface with clients.

3. Ensuring that HR Thinks Strategically about its Goals and Actions

Accomplishing a good balance of leading and managing is crucial for HR, which must transcend the transactional, operational, functional view and make focus on issues that are real to the business. What kind of support is required for HR to make this happen?

- S*tructures, practices, mindsets that develop and promote strategic HR systems* so that the CEO and other senior leaders act as role models by participating in HR activities; and that HR and performance management responsibilities are included in all

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managers' job descriptions.

- *Coaching and development for HR leaders* so that they receive guidance from senior leaders, are trained in general business principles and continue their professional training.
- *Leadership competencies are built within HR* through formal training and coaching, HR managers develop the same leadership skills required by other senior leaders (analysis, change management, communication skills and political smartness etc.).
- *Participation in institutional strategy development* so that the HR director attends strategy development meetings, contributing the HR component and translating general strategy into HR strategy.
- *Responsibility for an HR department strategy and Key Performance Indicators (KPIs)* so that HR leaders are required to prepare an HR strategy, specific strategic action plans, and a set of strategically relevant KPIs.
- *Visibility with the Board* so that HR leaders present HR strategies (recruitment, retention, succession planning etc.) and data to the Board.
- *HR develops business acumen and sector knowledge* so that through formal training and coaching from manager or mentors, HR professionals become fully knowledgeable about business practices, banking and microfinance.
- *CEO champions support for the central importance of performance management* across the institution as well as other high profile HR initiatives.

Staff Incentives as a Strategic Tool

KGFS (Kshetriya Grameen Financial Services) is a two-year old rural finance model promoted by the IFMR Trust through its wholly owned subsidiary IFMR Holdings and provides an example of strategic HRM. The KGFS Mission is "*To maximise financial well being of every individual and every enterprise by providing complete financial services in the remote rural parts of India*". To this end, KGFS calls its customer-facing executives "Wealth Managers".

The Wealth Managers are incentivised based on the overall financial well-being of their customers' household financial well-being (instead of simply sales of products). When a customer is enrolled, details regarding his/her financial status are gathered, and on the basis of this a household wealth index is generated based on the income, assets, risks and expected inflows and outflows of the household. This is used to generate a suggested list of financial products that can help maximise the financial well-being of the household and the rationale for selling these products.

The Wealth Manager is then encouraged to approach the customer, equipped with a plan to help build the household's financial well-being. Thus, for example if the household has a buffalo or heifer, they are encouraged to take livestock insurance to protect this important asset. If the household has children, then a long-term savings or education plan is suggested. The index is updated periodically and the Wealth Manager is rewarded based on the overall growth of the household's financial well-being as reflected in the movement of the wealth index.

The incentive system is geared to drive the sales turnover and business growth of the organisation indirectly, but adopts a more customer oriented/demand driven approach to rewarding employees, which ties in with the organisation's goal in achieving its mission. Anil Kumar CEO of IFMR Holdings notes, "*We have deliberately steered away from building a sales culture and would like our Wealth Managers to be genuinely interested in the financial well being of the customer*".

Contrast this with a typical MFI's incentive system, which probably has components of customer acquisition, portfolio size and delinquency management, and is focused above all in pushing out (and to a certain extent, recovering) loans. These types of incentive schemes are, in part, driven by strategies that are focused on rapid growth on the basis of a single basic credit product. They are also more common because this type of data is available and is easy to measure and analyse. But for MFIs that profess to be customer centric or have poverty focused strategies, such incentive schemes may lead to undesirable behaviour as front line staff focus on sales to the exclusion of almost everything else.

Why Strategic HR Makes Sense: Excellent performance is a strategic target, while HRM is focused on the people management activities of the institution. To achieve the maximum benefit from this paradigm, HR must be treated as a strategic function, must be integrated into all other strategic planning and implementation, and must be developed to operate as a strategic peer to all other institutional components such as operations, risk management, product development or finance. The key to ensuring that HR is led strategically and contributes to the overall strategic development of the institution is commitment to the fact that it is the work of employees that produces the institution's business results. The more effective the institution is at attracting, deploying, developing and managing employees, the better its results will be.

For more on these and other issues refer to the new *MicroSave*/ShoreCap Exchange Advanced Human Resource Management Toolkit – available on www.*MicroSave*.net.