Standard 2C

Employee recruitment and evaluation is based on both social and financial performance criteria.

> Essential Practice 2C.1 Employee job candidates are screened and hired for their commitment to the provider's social goals and their ability to carry out social performance-related job responsibilities.

Essential Practice 2C.2 The provider trains and evaluates employees on both social and financial performance responsibilities related to their position.

Essential Practice 2C.3 Employee incentives promote progress toward the provider's social goals.

Essential Practice 2C.4 The provider incentivizes staff to approve quality loans. (Client Protection standard 2.5)

2C.1 CONSIDER SOCIAL PERFORMANCE WHEN HIRING EMPLOYEES

Your institution's Human Resources function should prioritize recruitment of employees who fit your institution's culture and values. It is imperative that you hire employees who are aligned with your mission and are enthusiastic about working with your target clients. Outline a list of personal qualities and work/educational experience that suggests commitment to your social goals. For example, you might desire candidates with a strong sense of responsibility for helping marginalized people, problem solving abilities, good teamwork skills, and integrity. Relevant experience might include work in communities with similar target clients, customer service responsibilities, travel to rural areas, ability to speak a local language, and experience working on a team.

If you are unsure which attributes and work experience make someone a good "fit" with your social mission, consider talking with field staff—managers, in particular—about the skills and personal characteristics that make someone a high-performing employee. For example, VisionFund International (VF) hires local people, since loan officers who come from the clients' own communities are best able to identify, recruit, and work with VF's target clients. Unlike many providers who place a lot of emphasis on an applicant's formal education, VF has found that higher education is not among the top attributes that make a good loan officer. Instead, they value the following characteristics: numeracy and literacy sufficient to complete the loan assessment and application forms; knowledge and language of the local area; dedication, tenacity, and commitment to microfinance; interpersonal and sales skills; willingness and ability to work in the field; and commitment to VF values. (See Field Example 51, Standard 5b)

TABLE 15. **EXAMPLES OF EMPLOYEE POSITIONS AND RELATED SPM DUTIES**

POSITION	SPM DUTIES
Loan officer	• Recruit clients who fit with the institution's target criteria • Undertake a loan appraisal for all loans • Understand and help resolve repayment problems for clients who have willingness but not capacity to repay a loan • Collect information on clients' living conditions • Respond to client complaints
Internal auditor	• Verify quality of social performance data collected by loan officers • Investigate potential violations of the institution's Code of Conduct by employees • Check for successful resolution of client complaints
Information Technology (IT) manager	• Make upgrades to the MIS to allow storage of social performance data • Produce reports that combine social and financial performance data • Provide a technology platform for the institution to receive client complaints
Human Resource manager	• Monitor adherence to the institutional Code of Conduct. • Align human resources policies and processes (such as recruitment, performance appraisal, promotions, etc.) with SPM practices. • Monitor the employee grievances redressal mechanism. • Produce regular reports on employee management, including: staff exits, staff satisfaction, employee grievances, etc. • Periodically refine the staff incentive schemes to ensure balance of social and financial performance criteria and any unintended consequences. • Conduct surveys to understand the occupational hazards and safety issues for employees.

Identify social performance-related responsibilities for each position, and when hiring new employees, screen candidates for their ability to carry out those responsibilities. Table 15 provides examples of employee positions and their related SPM duties. Create a similar list for your institution, tailored to your specific social goals.

Finally, in addition to requiring employees to sign the institution's Code of Ethics, consider developing a "commitment contract" which states that a job candidate will do his/her best to carry out the institution's social goals.

- Grameen Foundation's *Recruitment and Selection Module* discusses the importance of recruiting and selecting employees who fit with the FSP's mission and strategic goals. It includes many practical tools, including interview guides and sample job descriptions.
- *ADRA Peru: Recruiting and Selecting Mission-driven Staff* is a case study that describes how the FSP's recruitment process is designed to identify staff that share ADRA's philosophy and are dedicated to its social mission, and to decrease staff turnover.

2C.2 TRAIN AND EVALUATE EMPLOYEES ON SOCIAL PERFORMANCE

Using your existing employee evaluation methods, introduce an evaluation of employees' social performance responsibilities. Choose criteria that correspond directly to your institution's social goals. Table 16 highlights example social goals for a loan officer and their related evaluation criteria. Each employee at your institution should have such a list of their responsibilities, and regular performance reviews should examine the employee's success in fulfilling these responsibilities.

Be aware that employees who are accustomed to being evaluated only on financial performance responsibilities may resist this new form of evaluation. Before adding social performance criteria to your employee evaluations, ensure that employees have first been trained on the institution's social strategy[54] and their social performance responsibilities.

TABLE 16. **EXAMPLE OF EMPLOYEE RESPONSIBILITIES**

LOAN OFFICER RESPONSIBILITIES	EVALUATION CRITERIA
Recruit clients who fit with the institution's target criteria	• Percentage of target clients (e.g., youth; women) in loan officer's portfolio
Collect social data on clients	• Number of client surveys conducted • Accuracy of client data collection
Respond to client complaints	• Number of client complaints received • Number of client complaints resolved
Maintain high portfolio quality	• PAR > 30 • Client retention, by loan cycle
Treat clients respectfully	• % renewed loans • Client complaints registered against employee • Client satisfaction with employee

[54] Guidance for standard 1a discusses the institution's social strategy.

FIELD EXAMPLE 24. FINCA MICROFINANCE BANK LTD. EVALUATES EMPLOYEES ON CUSTOMER CARE

In 2010, FINCA MFB (Pakistan) rolled out a comprehensive "Customer Care Program" that seeks to understand the customer experience, tailor products and services to the real needs of clients, and provide excellent customer service. As part of this program, employees are evaluated on how well they implement the FSP's *Customer Care Standards*.

In order to develop the *Customer Care Standards*, the FSP first evaluated the current level of customer care for each branch, examining staff treatment of clients, the branch environment, and how product information was relayed to clients. FINCA MFB analyzed which practices were associated with to high standards of customer care, as well as those that detracted from the customer experience or violated clients' rights. In addition to this evaluation of branch staff behavior, the institution's Research Department surveyed a sample of clients, asking questions about their experience and satisfaction with staff treatment and products and services.

Based on the information above, FINCA MFB then developed the *Customer Care Standards* which govern the behavior of every bank employee. To ensure that employees take the standards seriously and apply them to their daily work, the bank evaluates each field-level employee using a Service Quality Assessment tool. The tool examines staff treatment of clients, how product information is relayed to clients, and staff personal appearance and demeanor. As part of the assessment, specialized staff called "Service Quality Assessors" contact clients to get their feedback on each of the above elements. This direct client feedback is then integrated into the Service Quality Assessment.

Each quarter, the bank's Customer Care Department communicates the results of the Service Quality Assessments to the relevant Branch Manager and Operations Manager. If the results reveal violations of the Customer Care Standards, these managers take corrective action. Additionally, the results of the assessments are recorded as part of the KPIs of branch staff. Finally, the results of the Service Quality Assessment are mapped by branch and region, allowing branch management to understand how its own customer care compares to other branches/regions.

Imp-Act SPM Practice Guide (Chapter 7) addresses how Human Resources supports balanced SPM, including hiring the right people and training staff on the institution's mission. Also available in Spanish and French.

2C.3 AND 2C.4 INCENTIVIZE SOCIAL GOALS, INCLUDING QUALITY LOANS

Pay a living wage

Fair compensation is the foundation of any balanced incentive structure. Staff should receive a living wage as a base salary. Incentives such as bonus pay should never replace a living wage for staff, as under-compensation combined with high bonus pay may unintentionally incentivize fraud/theft, client mistreatment (e.g., bribing or overcharging clients), over-selling of products in order to reach performance targets, and other behavior that is harmful for clients.

First, examine your institution's wages to determine whether you pay a *living wage*. A **living wage** is sufficient to provide minimally satisfactory living conditions for the employee in the location where s/he lives. This means that based on his/her basic pay (excluding bonus pay), an employee can afford safe housing, and sufficient food, clothing, and transportation necessary to perform their workplace and personal duties. Your institution can determine the living wage using relevant collective bargaining agreements as a good indicator. When in doubt, conduct a simple study on the cost of living by interviewing employees. Remember that the living wage is not a static amount, particularly in countries with high inflation. Each year, examine whether salaries are still responsible, given changes in the cost of living.

Incentivize balanced performance

The indicators used to measure and reward employee performance communicate an important message to staff and clients about what your institution values. If your organization claims to have social goals but incentivizes financial performance exclusively, employees have no choice but to deprioritize social performance. For example, it is safe the assume that a "zero tolerance for arrears" incentive policy will lead some loan officers to use unacceptable collections practices. And you cannot expect that a manager will spend time mentoring staff and cultivating new leaders if this is not part of his/her KPIs.

To design and implement an employee performance management system that includes social and financial goals, first consider: *What are the behaviors and achievements that we want to promote?* For example, do you simply want field agents to recover the maximum number of overdue loans possible, or is respectful treatment of delinquent clients also a goal? Do you want employees to sell as many microinsurance policies as they can, or do you also care that an insurance policy is the right fit for the customer who buys it? Is it good enough for a field agent to simply fill out a client's social data profile, or is it important that the information also be accurate? Think carefully about your social goals—such as respectful treatment of clients, good product fit, and accurate data collection—so that you are clear on what behaviors your rewards system should encourage.

A good incentive system will:

- **Balance social and financial goals.** Integrate "social" variables into your incentive system without exceeding the recommended five variables that keeps the system manageable and uncomplicated. See Box 8 for example social variables. The **weights**[55] assigned to social and productivity variables should be balanced to make sure the same importance is given to social and financial performance. In some cases, the importance of a social goal can be stressed by placing it as a *condition*[56] (rather than a variable) in the incentive system. For example, a loan officer's rewards may be conditional upon having a certain percentage of target clients (e.g., women, rural farmers) in his/her caseload. Additionally, you could emphasize desired customer treatment by excluding employees who are being sanctioned for mistreating clients.
- **Incentivize good treatment of clients.** It is important that the variable proportion of a field officer's salary be reasonable—never more than 50 percent, though 20 to 30 percent is often a better limit for preventing poor

[55] Generally, a single variable should carry a weight between 10 and 35%. Weights lower than 10% are not motivational, and those above 35% create lopsided behaviors (i.e., neglect for other variables).
[56] **Conditions** are certain minimum levels of performance that staff are required to meet in order to be eligible for their rewards.

practices such as aggressive sales or recovery tactics. Set limits for field officer caseloads, so that clients do not suffer under staff with too-high caseloads (see Box 9). Also consider setting a cap on disbursement/sales incentives to reduce the incidence of overly aggressive sales practices. For example, one FSP decided that anything disbursed over and above 120% of the disbursement target is not accounted for in the incentive calculation.

- **Be simple and straight-forward.** Incentive calculations should be simple and transparent for each employee group; a good rule of thumb is that any employee should be able to calculate his/her own incentives. **Variables**—the key indicators that combine to evaluate an employee's performance against pre-defined targets—should not exceed five for each employee group. Track variables and metrics in your MIS or other reliable system that is perceived as transparent and fair by employees.
- **Set attainable goals.** Aim to set conditions that qualify at least 70 percent of employees for rewards. Especially when introducing new variables or weights into your incentive system, err on the side of more employees achieving the reward, rather than fewer. Over time, you will be able to gauge whether you have established attainable goals and can adjust the incentive structure accordingly.
- **Promote equality among employees.** While some providers choose only to apply incentives to certain positions, experience shows that a comprehensive incentive system that covers the majority of job positions at the institution—or at least the field positions—creates a greater sense of equality among employees. Additionally, while junior and senior staff may have different KPIs based on their responsibilities, the indicators should all be aligned to the same end goals. For example, a branch manager might be incentivized by a client drop-out target, while a customer service representative at that branch would work toward resolving a target number of customer inquiries—and both would be working toward the same goal of customer retention.

BOX 8. EXAMPLE SOCIAL VARIABLES FOR INCENTIVIZING EMPLOYEES

Most variables are not purely "social" or "financial" in nature. In other words, most variables indicate something about client treatment and financial performance at the same time. All of the variables in the list below contain a social element, in that they incentivize the employee to devote attention to client progress and view clients as a longer-term investment.

- Portfolio at risk
- Product uptake (new accounts created, policies sold, etc.)
- Product dormancy (non-use of product without closing the product account)
- Renewal rate (for loans, insurance policies, etc)
- Client exit/retention rate
- Loan amounts disbursed comply with credit policies on client debt levels
- Clients from target group
- Quantity/quality of new client training delivery
- Client satisfaction with/complaints against employee (based on client feedback)
- Client movement ("graduation") from one product level to the next
- Savings frequency (frequency of savings deposits)
- Quantity/quality of non-financial services delivered (e.g., client education/training)
- Average time for insurance claims resolution

BOX 9. SET CASELOAD LIMITS

Too-high case load targets will degrade service quality, and may cause other problems such as staff attrition. The productivity levels below are suggested as a general guideline. Set benchmarks that are specific to your context, and test them with staff.

* Individual lending (loans per Loan Officer):

- Green Zone (low risk to clients): below 200
- Yellow Zone (moderate risk to clients): 200-300
- Red Zone (high risk to clients): > 300

* Solidarity group lending:

- Green Zone: below 350
- Yellow Zone: 350-500
- Red Zone: > 500

Once you have created your incentive system, invest time in communicating to employees the rationale behind the system and how it works. Prepare an organization-wide training before implementing a new system, or if you believe employees do not fully understand the current one. Complement training with short, simple employee guides that explain the policies and provide sample calculations.

Finally, each year, your institution should review the incentive system. This task should fall to senior management and Internal Audit/Risk Management. These staff should examine any new system after three to six months and then annually thereafter. The role of Internal Audit is to monitor the factors presented in Table 17 and report to management. Senior management should use this information, in addition to market information, to ask the essential questions presented in Table 18. The ultimate goal is to ensure that the incentive system is not creating unintended negative consequences for clients.

BOX 10. EXAMPLE INCENTIVE STRUCTURE THAT BALANCES PORTFOLIO GROWTH/SIZE AND QUALITY

The table below provides a simple example of an incentive system that balances social and financial objectives. It is modeled on the indicators used by a mid-sized microfinance provider in Peru.

Variable	Indicator	Weight
Loan officer productivity	# new groups formed during the period	25%
	Active loan portfolio size	25%
Portfolio quality	PAR 30%	25%
Reaching target clients	Average loan size in portfolio	15%
Client education	% of education sessions facilitated (calculated as "education sessions facilitated/education sessions targeted")	10%

- The Smart Campaign's *Balanced Incentives for Frontline Staff* discusses practical ideas and case studies for balancing financial and client protection goals.
- Grameen Foundation's *Total Rewards Toolkit* describes how to develop a reward system to motivate employees to achieve the FSP's social and financial goals, and it includes practical tools such as incentive plans and merit increase guidelines.
- Imp-Act's *Staff Incentives Guidance Note* frames the key questions to consider when reviewing a staff incentive system and identifies some emerging practices in balanced staff incentives. Also available in Spanish and French.
- A case study on FinDev Azerbaijan provides a practical overview of the process of developing and implementing a staff performance appraisal system and salary compensation scheme.
- *Rethinking Staff Incentives: An Experience from India* finds that non-monetary incentives (such as training for staff) have greater, positive effects on staff behavior while monetary incentives did not have as much impact.

TABLE 17. FACTORS FOR INTERNAL AUDIT TO EXAMINE WHEN REVIEWING YOUR STAFF INCENTIVE SYSTEM

FACTOR	SOURCES
Staff treatment of clients	• Client complaints data from the complaints system[57] and client exit surveys[58] • Staff disciplinary reports • Client feedback on staff behavior, including: › Respect toward clients › Ability/willingness to explain products and answer questions › Delinquency/recovery handling procedures › Ability/willingness to resolve client problems › Treatment during sales (e.g., pressuring clients) › Quality of training provided to clients • Peer feedback on staff behavior, including: › Conduct toward clients (see above) › Adherence to staff rules and Code of Conduct including instances of violations
Staff training	• Review of topics covered in recent/routine training (e.g., orientation) • Checks on staff knowledge of the Code of Conduct, client rights, sanctions for client mistreatment
Portfolio/sales	• Growth patterns (locations; changes in trends; unusual cases; comparison with targets) • Spot checks of randomly selected staff portfolios (proper selection; proper loan decisions; check for ghost clients)

TABLE 18. ESSENTIAL QUESTIONS TO ANSWER WHEN REVIEWING YOUR STAFF INCENTIVE SYSTEM

QUESTION	INFORMATION TO CONSULT
Do incentives contribute to staff mistreating clients?	• Growth targets and actual performance • PAR targets and actual performance • Retention targets and actual performance • Information from Internal Audit on staff treatment of clients (see Table 17)
Do incentives contribute to staff mis-selling or overselling products?	• Growth targets and actual performance • Data on client multiple-borrowing and over-indebtedness[59] • Information from Internal Audit on staff treatment of clients (see Table 17)
Do incentives impact service quality?	• Staff workload or caseload (e.g., clients per loan officer) • Sales targets (e.g., number of insurance polices sold in a period) • Client feedback/complaints on customer service • Client questions about products/misunderstanding of products (reflecting possible poor quality of understanding/ explanation on the part of staff)
Are incentives appropriate to current market conditions?	• Growth targets and actual performance • PAR targets and actual performance • Market conditions, including: • Growth and saturation, by location • Factors affecting client ability to repay (e.g., political crisis)

[57] Guidance on complaints mechanisms is found in Standard 4e.
[58] Guidance on client exit surveys is found in Essential Practice 3a.2.

[59] Guidance on understanding client multiple-borrowing and over-indebtedness is found in Standard 4a.

FIELD EXAMPLE 25. UJJIVAN INCENTIVIZES CUSTOMER SERVICE

Due to financial constraints related to India's microfinance crisis, Ujjivan Financial Services Ltd. was forced to scale back incentive pay for staff in order to avoid staff layoffs. However, the FSP still uses awards to motivate Customer Relationship Staff (CRSs)—the term Ujjivan uses for loan officers. The incentive system relies on a balance of portfolio quality and quantity indicators, and it requires that managers carefully evaluate the performance of branch staff.

CRSs are scored using a scale of 0 (poor performance) to 5 (excellent performance) on five assessment parameters:

1. Number of borrowers
2. % of idle customers > 60 days
3. Portfolio balance outstanding
4. Client repayment rate
5. "Customer connect"

Ujjivan's "customer connect" parameter is an assessment of how well the CRS performs the following duties:

- Developing positive relationships with customers and delivering excellent customer service;
- Organizing and leading the branch's social development programs (including health outreach programs, education activities, and other social programs);
- Identifying customers who are in immediate need of additional support services from the FSP; and
- Participating in meetings for client leaders.

The customer connect requirement is the only subjective indicator in the incentive system, and as such, it requires time and effort on the part of branch management to evaluate. However, it is also an indicator that encourages strong customer relationships, and it has a positive effect on branch culture.

Read more on this case study here.

FIELD EXAMPLE 26. ESAF REWARDS STAFF FOR ACHIEVING SPM TARGETS

ESAF Small Finance Bank (India) put in place social performance targets for branch staff. These targets are analyzed on a quarterly basis and reported to the head of the Operations department as well as to the board. ESAF is revising its incentive system around these targets. Each branch will receive an overall score and the best branch will be rewarded.

1. Social targets

Reach the poor	80% of new clients are "poor," living on INR 8,000 (US $125) per month or less
Reach woman	At least 10% of the clients should be women-headed households
Reach rural people	Portfolio is 70% rural
Reach PWD	At least 1% of clients should be people with disabilities (PWDs)
Increase clean water	All 4th-cycle loan clients should have at least one water purification method
Increase toilets	All 4th-cycle loan clients should have access to a toilet (their own, a nearby public toilet, or other sanitary facility)
Improve housing	The number of 4th-cycle loan clients with cement ("pucca") homes should be, on average, 25% greater than the number of cement homes among new clients
Reduce economic poverty	The poverty level of 4th-cycle loan clients should be, on average, 25% lower than the poverty level of those same clients at entry, as measured by the Progress out of Poverty Index (PPI)
Increase health insurance	At least 25% of 4th-cycle loan clients should have health insurance cover (whether through the government or a private provider)

2. "SPM Audit" from each branch in the region (parameters listed below)

- Client social profiles (e.g., poverty data) are complete
- Exit client surveys are filled out
- Complaint/suggestion box is visible and maintained
- Client receipts (for payments made) are all signed by the client
- The following are on display: interest rates, complaints information, manager contact information
- Client passbooks are filled out
- The branch office is orderly and clean

3. Client satisfaction survey scores

4. Staff behavior: Cases of staff violations of the Code of Ethics will lower the branch's overall score.

5. Client transformation stories: Each branch must report to the SPM Department one client transformation story per month. The client should be in his/her 4th loan cycle or greater. The story must describe the following elements:

- The client's family (spouse, parents, children) and their occupations
- The client's home (# of rooms, flooring, walls) and any changes to the house during the client's tenure with ESAF
- The client's income-generating activity, monthly earnings, and ability to employ others
- Any investments (gold, land, property, household appliances, animals, etc.) during the client's tenure with ESAF
- Some important family and business decisions that the client made in the past year
- The client's plans for the future (business, family, investments, etc.)
- The client's feelings about whether s/he is a respected person in his/her household and community.

6. Completion data for non-financial services: Data on clients participating in ESAF's Client Empowerment and Education Program, which teaches financial literacy, health awareness, leadership, and business skills.