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microNOTE #40

Middle Management for MFIs

WHAT ABOUT THE MANAGERS IN THE MIDDLE?

The Role and Availability of Middle Management Training for Microfinance Institutions.

The number one reason for prioritizing middle management training is growth. When microfinance programs were first getting started, there was little need for middle management. Today, proven methodologies, more appropriate regulation and supervision, new technologies, innovative partnerships, and increasing access to capital are creating an environment in which microfinance service providers of varying types can grow. The more they grow: 1) the more middle managers they need; and 2) the more complex the skill set that their middle managers require.

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In 2006, the authors of MicroSave's forty-sixth briefing note declared, "Training and capacity development remains the single biggest challenge for microfinance worldwide." It was a bold and expansive statement that went undisputed in the electronic discussion forums that often host exchanges about the industry's needs and priorities. Instead, recent industry reports and interviews with representatives of microfinance networks in Latin America, West Africa, the Middle East/North Africa, South Asia and Eastern Europe/Central Asia have confirmed that the challenge remains and have highlighted capacity weaknesses at the middle management level as a particular area of concern.[1] Microfinance Banana Skins 2008, the first global industry survey on the risks affecting microfinance institutions, identified management quality and staffing as two of the top five risks facing the microfinance industry today.

This microNOTE briefly explores why middle management capacity building has become a priority and describes the kind of training that middle managers typically require. It then summarizes the interventions that are currently used to strengthen middle management capacity and highlights gaps in service provision that weaken the capacity building effort.

It is hoped that the clear identification of these gaps will provide a departure point for industry stakeholders to design and support stronger middle management capacity building initiatives in the future.

[1] See for example, Lillian Diaz and Tran Binh Minh, "Moving Forward: Scaling Up Microfinance Training in Viet Nam Recommendations for Training Strategy", July 2007; UNDP Mozambique report, Jan Kerrer, "A Fresh Approach to Human Capacity Development," GTZ and ProFI, 2007, Martin O'Reilly, "A Report on Microfinance and Community Economic Development Training and Education in Africa," September 2006.

> "Management skills are obviously in short supply in most of the countries where microfinance can play a role."
>
> –Andrew Hilton, Director, Centre for the Study of Financial Innovations

Why Middle Management Training?

The number one reason for prioritizing middle management training is growth. When microfinance programs were first getting started, there was little need for middle management. Visionary leaders, credit officers and community mobilizers all worked out of the same physical space and their direct relationships fuelled learning and innovation. As those programs developed into institutions, as the number of clients and branches expanded, and as the diversity of products and services increased, middle managers became vital to the organizational structure. They took responsibility for planning, organizing, leading and controlling operations within a particular geographic area or field of expertise, which made it possible for institutions to achieve greater outreach than senior managers and field staff could have realized on their own. Decentralization and specialization made larger-scale microfinance possible.

Today, proven methodologies, more appropriate regulation and supervision, new technologies, innovative partnerships, and increasing access to capital are creating an environment in which microfinance service providers of varying types can grow. The more they grow: 1) the more middle managers they need; and 2) the more complex the skill set that their middle managers require. Even managers with a relatively solid skill base often need additional capacity building to deal with the increased complexity that growth can bring to their job descriptions, for example:

- How to recruit and retain clients in an environment where there is increasing overlap with the competition?
- How to understand new markets and adapt products and services to their needs?
- How to make daily operations more efficient, either to lower prices or be capable of delivering services in markets that are more difficult to reach?
- How to monitor and communicate performance effectively using a new technology?
- How to manage the institutional changes that may be necessary to meet regulatory requirements or to diversify funding sources?

In most countries, a readily available supply from which to recruit qualified middle managers does not exist. Institutions must either train new managers themselves or "steal" managers that have already been trained by other microfinance institutions, a growing phenomenon that does not increase the aggregate supply of qualified managers available to the industry.

Historically, most middle managers have been recruited from within. They were promoted from the ranks of field-level specialists on the basis of their technical performance as loan officers or marketing officers and typically lacked management knowledge and experience. Few MFIs offer a management training program that helps front-line workers quickly and successfully transition to a management role, so they had to learn on the job – through trial and error and informal coaching by others. This took time and, because of the ad hoc nature of the process, left many capacity gaps.

Growing MFIs will not have the luxury of time when it comes to bringing more middle managers on board. They are likely to follow the industry's traditional path and ask relatively inexperienced managers to handle increasingly large and complex operations. This will increase the risk of failure. Weak middle managers are liable not only to make poor decisions, but also to be ineffective at empowering others to implement the good decisions that they and others have made.

Significant investments have already been made in building staff capacity at the field and senior management levels with many positive results and some sustainable delivery models. Many MFIs train their field staff in-house and can do so cost-effectively because of the economies of scale and the straightforward nature of the knowledge, skills and attitudes that need to be developed. Most distance-learning experiments have also focused on this market, for similar reasons. Senior managers are often able to access quality international training opportunities because they speak English or another major international language, they are relatively few in number and they can obtain financial support from their own institution or a donor. Their education, past experience and current status make it relatively easy for them to apply the international content productively in their own institutions.

Middle managers have more complex training needs than field staff, they tend to be less well educated than senior managers, there are many more of them to be trained and there is limited time and funding available to do so. The dearth of appropriate capacity building to date has left the industry with a weak middle management layer and this now needs to be addressed if growing institutions are to be healthy institutions.

What kind of training is required?

Sandwiched between the senior leadership and field staff, middle managers must be able to interpret messages that come from higher levels of decision-making; take appropriate decisions to manage operations and risk at their own level;

> "Transformation imposes even more demanding requirements, so the involvement of middle managers in day-to-day operations only without seeing a big picture of what they should do to make their institution better does not work anymore."
>
> —Margarita Lalayan, MFC Consultant

motivate, supervise and support the staff who will implement those decisions; muster the resources necessary for action; and provide feedback to both supervisors and subordinates to improve future performance. Their job is difficult and demands a broad skill set.

To build this skill set, training aimed at middle managers should be designed with the following eight characteristics:

1. **Holistic.** Middle managers need training that helps them put their day-to-day activities into a larger institutional and environmental context. They need to understand why their institution's mission is what it is, what their role is in fulfilling that mission, how the different parts of their institution can help them fulfill that role, how the work they do will impact others' ability to fulfill their role, and how their work might be affected by external factors. In order to shift from the focused, technical perspective of a loan or marketing officer to the perspective of a manager who ensures the healthy operations of a branch or department, middle managers need exposure to the big picture.
2. **Informed.** Middle managers need access to a foundation of microfinance good practice that they can build upon in their own operations rather than having to reinvent the wheel. Training interventions should help managers learn from the industry's global experience to build something bigger and better.
3. **Responsive to specific technical deficiencies.** Middle managers will need to develop skills in specific technical areas such as risk management, human resource management, strategic business planning, financial analysis, costing and pricing, market research and product development, etc. The specific skill sets required will vary depending on a manager's previous training, education and experience, as well as the position being filled. Thus, training opportunities must respond to identified deficiencies.
4. **Soft skill-focused.** Middle management training must go beyond the simple communication of knowledge and develop managers' ability to analyze, question, synthesize, evaluate and communicate that knowledge. Because their environments are constantly changing, middle managers must know how to judge the validity of theories and strategies in their current context, how

to take a tool that may have been used one way in the past and apply it another way in the future to solve a new problem, how to seek out additional information when necessary, etc. Once a decision has been made, they need another set of skills to facilitate effective implementation of that decision – time management and delegation skills, for example. See Box 1 for a list of some of the soft skills that middle managers often need to develop.

5. **Accessible.** Middle management training opportunities must be affordable in terms of cost and time. The number of middle managers in need of training and the urgency with which they need to be trained dictates that training should take place in a location and in a format that makes it as easy as possible for middle managers to participate.

6. **Understandable.** Middle managers need access to materials in local languages with examples from regions and contexts that are similar to their reality. Lower levels of education, limited international exposure and relatively weak analysis skills make it more difficult for middle managers to apply international content to their own situations, so training materials for this market should use transparent analysis and appropriate examples to make interpretation easier in a particular delivery environment.

7. **Integrated with the workplace.** To respect one of the most important principles of adult learning, middle management training needs to be relevant to what managers are experiencing in their daily lives. Managers want to see immediate opportunities to use what they are learning and their institutions are keen to see immediate returns on their investment. This can be facilitated through training events that bring workplace challenges or requirements into the learning environment and use them as the testing ground for the application of the knowledge, skills and attitudes communicated during the training. When participants conduct classroom work using their own institution's data and scenarios, they should leave the training with plans and/or frameworks that are ready for at least partial implementation. This will make it easier for managers to apply the classroom learning in their own institutions and for institutions to hold their managers accountable for using the training experience to benefit the institution and not just the individual.

8. **Supported.** Training has proven to be more effective when followed up with a period of active monitoring, technical assistance or coaching. This is particularly true for middle managers, who often lack the authority to take all the actions they believe should be taken and can become quickly discouraged or defeated when it comes to implementation. Supportive follow up that helps managers address the implementation barriers they confront will be key to success. This support can come from an external technical assistance provider, an internal coach, or a peer to peer learning network.

Box 1: Soft Skills for Middle Managers	
• Communication	• Conflict management
• Negotiation	• Time management
• Public speaking	• Critical analysis and problem solving
• Delegation	• Soliciting and learning from feedback
• Leadership	• Change facilitation
• Coaching and mentoring	• Influence and persuasion
• Team building and maintenance	• Motivating performance

OPPORTUNITIES CURRENTLY AVAILABLE

Middle managers in microfinance institutions have access to four main types of management training: 1) classroom-based short courses; 2) programs affiliated with an academic institution; 3) distance learning courses; and 4) coaching or mentorship opportunities. Each of these is summarized below.

Classroom-Based Short Courses

By far, the most widely available type of opportunity for middle managers is the classroom-based short course. Microfinance institutions in most regions of the world have access to a significant number and variety of these courses. Annex 1 provides a list of sixty different classroom-based short course topics that were advertised internationally through the Microfinance Gateway (www.microfinancegateway.org) or the Financial Services Training Resource Centre (www.fstrc.org) in 2007. While extensive, the list excludes an unknown number of courses that may have been offered at the local level by NGOs, networks, consulting companies and training institutes.

Of the 100 face-to-face training events advertised by the FSTRC in 2007, 92% were one week or less in duration. The most accessible courses seem to be those that were developed by CGAP and MicroSave and have been distributed through local trainers and training institutes certified to deliver those courses. CGAP has made seven courses available in English and French: Accounting for MFIs, Business Planning with Microfin, Delinquency Management and Interest Rate Setting, Financial Analysis, Information Systems, Operational Risk Management, and Product Development. Five of these courses are also available in Arabic. The participant materials for all CGAP courses can be downloaded at www.cgap.org.

MicroSave has developed a total of seventeen toolkits (see Box 2), which include a training manual, exercises, PowerPoint presentations and participant materials. These materials can also be freely downloaded at www.microsave.org. Six of the toolkits are available in French and five in Spanish.

Another course that is worth mentioning is the Staff Management Training for Branch Managers that was developed by MEDA and the SEEP Practitioner Learning Program. This 2-day training curriculum is one of the few available courses that focuses significantly on soft skill development. Trainers' materials can be downloaded at www.seepnetwork.org.

In general, the short courses available to middle managers of microfinance institutions are relevant to their needs; they are built on international best practice; and they help address specific knowledge and skill deficiencies. An increasing number of courses are integrating practical field work opportunities into their design. Some, such as those offered by MicroSave to its action research partners or by networks to their affiliates, provide supportive technical assistance after the training to assist managers with the implementation of the knowledge and skills developed during the training. Active integration of training room activities and real work tasks is still relatively rare, however.

The short duration of these courses makes them affordable in terms of time, but the financial cost of attendance can still be high, especially when managers must travel to another country to attend the course. The vast majority of courses are available in English only.

Short courses that last more than one week are less common but provide valuable training opportunities for middle managers because they address

Box 2: List of MicroSave Toolkits

1) Corporate Brand and Identity
2) Costing and Pricing
3) Customer Service
4) Designing Staff Incentive Schemes
5) Human Resource Management
6) Institutional and Product Risk Management
7) Institutional Culture Change
8) Loan Portfolio Audit
9) Market Research for MicroFinance
10) Planning, Conducting and Monitoring Pilot-Tests for MFIs - Loans
11) Planning, Conducting and Monitoring Pilot-Tests for MFIs - Savings
12) Process Mapping
13) Product Marketing
14) Product Rollout
15) Quantitative Research
16) Strategic Marketing for MFIs
17) Training of Trainers

multiple management themes from a practitioner's perspective. Among the most well-known programs are the Boulder Microfinance Training in Turin, the School of Applied Microfinance in Kenya and Southern New Hampshire University's Microenterprise Development Institute (see Annex 2 for a brief summary of these and other programs). These courses provide more holistic training opportunities than the shorter technical courses, although they vary in the degree to which they provide a coherent overview of key management and microfinance issues. All of the courses offer evening and sometimes weekend networking opportunities that are rarely found in shorter courses and can help to support implementation of the knowledge and skills gained during the training. The longer duration of these courses makes them less affordable, although the ILO's delivery of "Making Microfinance Work: Managing for Improved Performance" through certified local trainers makes its curriculum more financially accessible.

Academic Programs

Universities and colleges everywhere offer business management courses, certificates or diplomas that microfinance managers could potentially access in a local language to strengthen their knowledge and skills in a variety of relevant areas. The major disadvantage of most of these programs is their generic nature. They offer no microfinance specific content and do not discuss the instruments and techniques that have been developed to manage microfinance institutions effectively, which makes it more difficult for managers to understand and apply the content in a microfinance context. Staff that graduate from such programs often find it easier (and more lucrative) to apply their knowledge in fields outside microfinance.

There are, however, a growing number of academic institutions that offer specialized courses, degrees and/or certificates in microfinance. The opportunities provided by some fifty institutions are summarized in Annex 3.

Academic programs vary widely in terms of what they can offer middle managers. Those that offer only individual courses provide similar benefits as the classroom-based short courses described above, although they may be more accessible due to their location, the language of instruction and/or the timing of instruction. Evening courses can make it possible for managers to study and work at the same time. Longer-term academic programs have the potential to offer more holistic training, but this very much depends on the design of the program and the extent to which deliberate connections are being made between the different management themes in the context of microfinance. A few programs, such as the Ateneo de Manila University's Diploma in Microfinance and WOCCU's Manager Certification Program, offer organized support to assist managers in applying their learning. The alumni networks of other programs may offer peer support.

At the moment, it is not easy for managers to locate information about the different academic programs available. The general lack of detail on curricula, faculty and alumni networks make it difficult to assess quality and to draw comparisons between different options. Although the number of specialized academic programs is growing, many MFI managers still do not have access to such options within their own country.

Distance Learning Resources

If one considers the broadest definition of distance learning, "the use of any media for self study," then managers have access to a massive and still growing database of content materials, many available free of charge, from websites like the Microfinance Gateway, CGAP, USAID MicroLINKS, the virtual library at www.MicrofinanzasBolivia.com, and the FAO's Rural Finance Centre. They can use these materials to teach themselves about management issues and strategies, and the ability to access such information on demand could be a powerful tool for solving specific problems when they occur. The utility of such resources is limited, however, by language, by the challenge of quickly finding a document that is relevant to a particular learner's current need, and by the fact the "instructor" or author of the document is rarely available for discussing the content of the resource, answering questions, or assisting with application.

Other types of distance education make use of audio, video, internet, teleconferencing and interactive CD-ROMs to connect learners and instructors electronically rather than physically, using technology to facilitate interaction and follow up. These technologies have great potential for delivering quality cost-effective training on demand even in remote areas. Trainees can study at their own pace; facilitators can monitor progress; and supervisors can support the application of new knowledge to actual workplace performance. [2] Although economies of scale are possible to achieve, developing and maintaining an effective distance learning program is difficult and expensive and platform selection can significantly limit the portability of programs from one provider to another. As a result, there are relatively few distance learning opportunities currently available to microfinance managers, especially in languages other than English and French. Annex 4 provides a summary of 14 programs that may be of interest.

Mentoring and Coaching

Although the terms mentor and coach are often used interchangeably, there is a difference in the nature of support provided by each. Coaching is usually a short-term activity focused on improving performance in a particular area or helping an individual to achieve a specific, challenging goal. The length of the relationship is defined by the task at hand. Mentoring enables an individual to follow in the path of a more experienced advisor who can pass on knowledge and open doors to opportunities that may otherwise be out of reach. It is usually a longer-term relationship that focuses on career and personal development and does not have specific performance objectives. Both types of support can strengthen middle management capacity, especially during times of organizational growth and change, when there are new challenges to be faced and individuals must adjust their perceptions of the future.

Relatively few microfinance institutions have formal mentoring or coaching programs for middle managers. Those that do rarely provide training or tools for the individuals who act as coaches or mentors. It is assumed that strong performers will automatically be able to communicate to others how to perform well, and this is not necessarily the case. Without checklists or guidelines to facilitate consistency, different coaches in the same institution often pass different messages and set different priorities with respect to the skills developed.

Some of the larger microfinance networks do provide coaching and/or mentoring services to their affiliates and MicroSave is known for having integrated this kind of support into its relationships with action research partners. Outside of such relationships, middle managers seem to have few opportunities for mentorship or coaching that would help them to apply the content of a short-course, academic program, or distance learning experience.

GAPS IN SERVICE PROVISION

There are eight major gaps between the type of training that is needed to build a strong cadre of middle managers within the microfinance industry and the opportunities that are currently available in the market. These gaps are summarized below.

1. **Big picture exposure.** Although the number and variety of short courses available in the market is impressive, there are few opportunities to connect the content of those independent courses to obtain a holistic and coherent overview of microfinance management. As a result, middle managers

[2] Leslie Zucker, "Distance Learning May Be the Best Way to Train MFI Staff," Microfinance Experience Series, No. 1, May 2004.

tend to be rather narrow in their understanding of their MFI's operations and their role in contributing to the success of those operations. This limits their ability to manage growth and change, to identify solutions to new problems, to face competition, and to recognize the need for better alignment between strategies, systems and procedures within their unit.

Middle managers need exposure to a core curriculum of microfinance management tools and best practice, and they need exposure to more than just their own institution's current way of doing things. They need to become aware of a range of methodological, technological and structural options from which they can choose to solve current and future management challenges. In the longer term, academic programs may be able to provide this exposure, but the number of academic institutions that are involved in microfinance education is still small and the timing and cost of these programs can still be prohibitive. Multi-week short courses such as those described in Annex 2 could fill the big picture gap, but most are only offered once per year in one or two locations and will be expensive. The ILO's middle management course, which is now available in French, Spanish, Portuguese, Russian, Arabic and Vietnamese, may help to meet shorter term needs.

2. **Soft skills.** These issues are infrequently addressed in most training packages. More deliberate and strategic opportunities are needed to strengthen the quality of middle managers' analysis and communication, as well as the other skills listed in Box 1.

3. **Quality materials in languages other than English.** The majority of microfinance training curricula continue to be available in English only. This is beginning to change, with the dissemination of CGAP and MicroSave content in French, Spanish and Arabic, and with online platforms such as PlanetFinance making distance learning materials available in both English and French. However, this only scratches the surface of the need. The ILO's experience with the testing of its materials in countries where other languages are spoken suggests that middle managers and their trainers are starved for access to good reference materials in a local working language. Quality translation is rarely affordable to any individual institution or technical service provider, so this is an investment that can be more appropriately made at the industry level.

> In West Africa today, there are no courses that provide an overview or global knowledge on microfinance; managers must attend at least five courses, which requires at least five weeks out of the office and $1500 in fees for those who live in a capital city."
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> —Soulemane Djobo, CAPAF

4. **Timing.** There are two timing gaps that need to be addressed. First, a large number of middle managers need training now because their institutions are already growing. For these managers, academic programs that require 1-2 years of study will not be an appropriate solution. Training opportunities are needed that enable managers to learn efficiently, over a relatively short period of time without requiring major absences from their work.

   Second, microfinance institutions that want to give managers more training opportunities find it frustrating that those opportunities are often marketed with very little notice and/or are held during certain times of the month when it is particularly difficult for middle managers to be absent from their offices. Thus, greater effort needs to be made to develop annual training calendars that take into account managers' scheduling preferences and to advertise training opportunities at least three months in advance so that institutions can budget and plan to participate.

5. **Affordable opportunities.** When speaking about affordability it is important to consider the full cost of participation in a training event since food, accommodation and travel expenses, plus the opportunity cost of missing days or months of work, can be a far greater burden than the course fee itself. In general, the training opportunities that currently exist for middle managers of microfinance institutions are expensive, and this limits the number of middle managers that can benefit from them. Course fees alone for international programs range from US$500 to Euro 6,000. Of the 112 training events listed on the FSTRC for 2007, only 24 face-to-face courses (21%) were offered outside of Western Europe, North America, India and the Philippines. Of the fifty academic programs listed in Annex 3, less than half offer educational opportunities in a developing country that can be completed in less than one year.

   Creating affordable opportunities for all middle managers means creating more local training opportunities at prices and with delivery schedules that MFIs can work with. Delivery models that incorporate a distance learning component and evening or weekend classes to minimize opportunity and transaction costs are worth more detailed exploration and perhaps replication.

6. **Local service providers that can deliver quality material.** The number of high-quality trainers and technical assistance providers that are accessible to MFIs at the local level is still quite small in most countries. A limited number of trainers have received coaching and support to deliver international curricula, but even these trainers receive little ongoing support and few formal networking opportunities to maintain the quality of their delivery over time. This is an area that deserves more attention and experimentation in the future, both to increase the supply of quality local trainers and to increase their capacity to develop new materials that can respond to MFIs' changing needs.

   Online resource centers such as FSTRC and the Rural Finance Learning Centre, and networks such as the one created by the Microfinance Management Institute (www.themfmi.org) to assist training organizations and academic institutions in developing countries to provide capacity building services that strengthen the management of MFIs could be useful vehicles for filling this gap. So could multi-phase certification programs such as that of the International Training Center of the ILO which combines training-of-trainer workshops and a competitive process to simultaneously strengthen skills, motivate greater quality, and give public recognition to those who achieve it. It would be helpful if training-of-trainer workshops of all kinds would aim not only to communicate the original design of the curriculum, but also to develop trainers' capacity to adapt that curriculum as required in the local environment.

7. **Pre-event planning and preparation.** To ensure that a course is useful and relevant to managers, more time can be spent before a training to: 1) identify the needs of the individual participants who will attend the course; 2) pinpoint opportunities for applying the course material to specific issues or challenges within participants' institutions; and 3) adapt course materials to better prepare participants for applying the knowledge and skills acquired during the course to the identified issues or challenges. This pre-event planning is what will make it possible for the training to generate a more immediate and concrete return on investment. It should also facilitate greater senior management

involvement in and commitment to the capacity building process. The cost of this pre-event planning and preparation should be priced into the course fee and/or negotiated with MFIs.

> "[Participants] must understand the connection between their training and the results that are expected of them. They must believe they will be supported by facilitators and supervisors in applying their new knowledge, and they must know how and when their performance and results will be reviewed and rewarded."
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> —Leslie Zucker, echange

8. **Accountability for productive change.** Too many learning opportunities end when the classroom-based course ends and this prevents them from having their desired impact. Knowledge, skills and attitudes gained during a capacity building experience need to be carried back to an institution and applied in a way that actually improves performance. Talented trainers may be able to inspire learners in the training room, but institutions need to motivate their staff and hold them accountable for doing something differently when they return home. They must invest not only in training opportunities, but also in the support systems that make it possible for learning to continue during the application phase and reward systems (financial or nonfinancial) that recognize productive change and discipline a lack of application.

Moving Forward

Closing these gaps is the challenge facing capacity builders in the microfinance industry today. Without making specific recommendations, the gaps described above suggest four broad priorities for action. First, find better ways to link training opportunities with institutional needs and desired changes in individual managers' performance. Second, leverage distance learning technologies and experiment with blended delivery models to reduce the cost of participation in training programs. Third, ensure the availability of high quality, up to date, and regionally appropriate materials by supporting the local development of new curricula and translating international curricula into local working languages. Fourth, build the capacity of local training organizations and educational institutions to design and deliver quality microfinance content – particularly holistic and soft skills-based programs – that is appropriately adapted for the current local environment. Once practitioners recognize that investments in middle management capacity building are required to effectively manage their priority risks of competition and cost control, these actions on the supply side should facilitate the delivery of capacity building initiatives that institutions are able and willing to finance.