

# ARIES

Assistance to  
Resource Institutions  
for Enterprise Support

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Management Training in Micro- and  
Small Enterprise Intermediaries

## HUMAN RESOURCES MANAGEMENT

Course Design and Concept Paper

Sponsored by

United States Agency for International Development  
Contract DAN-1090-C-00-5124-00

Prepared by

Nathan Associates Inc.

April 1991

**ARIES Materials in the  
Management Training for Micro- and Small Enterprise (MSE)  
Training Series**

***Strategic Management.*** This package aims to define a strategic planning framework for addressing the key issues in MSE project design and implementation, for MSE project managers. The package consists of 21 case studies, which are based on the experiences of intermediary institutions as they have shaped their MSE development programs. The case studies draw on the actual experience of programs in Bangladesh, Brazil, Colombia, Costa Rica, Dominican Republic, Honduras, Indonesia, Kenya, Philippines, and Senegal. The cases were published in *Seeking Solutions: Framework and Cases for Small Enterprise Development Programs* (Kumarian Press). The corresponding case notes were published in a companion volume, *Case Leader's Guide* (Kumarian Press). A users' guide provides guidelines on the most effective use of these materials.

***Credit Management.*** This is a "nuts and bolts" manual targeted to MSE project designers and implementers at the programming and operational levels. Its objective is to help MSE practitioners design, and implement, and manage credit programs more effectively. This package addresses matters of practical relevance to successful credit project management, such as properly designed accounting and management information systems, evaluation and monitoring techniques, and commercial feasibility analyses of prospective borrowers. The package has been translated into Spanish and French.

***Human Resources Management.*** This package is targeted to managers of institutions that implement MSE projects. It deals with staffing requirements of MSE programs, employee motivation, incentives, supervision, training needs, and performance evaluation. It presents various personnel and staffing models practiced in successful programs. The package has been designed on the basis of a training needs assessment that included interviews with 75 MSE practitioners.

***Entrepreneur Training: Users' Guide.*** This package reviews the five most widely used entrepreneur training models. These five models reflect the state of the art of such training models and demonstrate the appropriateness of the various models under varying regional and program contexts. This document presents a comparative analysis of each prototype and guides trainers and MSE program designers in choosing appropriate models for various target groups within the MSE spectrum.

***Training Needs Assessment Methodology.*** This manual provides a consistent methodology to conduct training needs analyses (TNA) before development or recommendation of training programs. It also serves as a tool for intermediary institutions to assess the training needs of their institutions and of their MSE clients. It provides a step-by-step, hands-on methodology for both experience analysts and people new to the process.

***Key Issues in Designing Microenterprise Programs.*** This training package orients MSE program designers to the key strategic issues in the design of MSE assistance programs. Its contents include four case studies based on the actual experience of two A.I.D. Missions in developing their MSE programs. This package is designed to reinforce basic design and programming concepts through three parallel processes: review of A.I.D. policy in and knowledge of microenterprise, individual and collective analysis of cases that enable workshop participants to work through critical issues in MSE programming, and presentations by participants to broaden the exchange of views. The materials in this package constitute the core of a 2- to 5-day training workshop on microenterprise programming for A.I.D. Mission program and project design personnel.

Copies of these materials are available from A.I.D./APRE/SMIE, Washington, D.C. 20523 or on request from Nathan Associates Inc., 2101 Wilson Boulevard, Arlington, Virginia 22201.

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## ACKNOWLEDGMENTS

We would like to thank the ARIES Technical Officers, Ross Bigelow, Andrea Bauman, and Melody Bacha, for their patient hard work and insights that helped with all of the effort entailed in producing this and other ARIES products. Special thanks also go to Tullin Pulley and Mari Clark of WID for their active involvement with all of the various ARIES activities. And not least, we wish to thank those who contributed pieces to various ARIES activities and attended and participated in them.

In developing this report, the authors received assistance from many sources. Thomas Timberg provided the initial ideas and stimulus, as well as a useful list of references and helpful comments on the first draft. The personnel of ACCION International and Technoserve cooperated in the interviewing, offering valuable insights from the international PVO perspective. Mohini Malhotra of Nathan Associates, Inc. provided helpful feedback on a later draft. Finally, our colleagues, Michael Grossman and Thea Moskat, lent assistance in locating databases on microenterprise from our Africa work and in assembling the final product.

## HUMAN RESOURCES MANAGEMENT

This training manual orients micro- and small enterprise (MSE) program designers and implementers to the key strategic issues in human resources management specifically for MSE programs. The materials consist of three parts: (1) a simple but powerful framework for conceptualizing the human resources management function within an organization; (2) an application of the framework to private voluntary organization (PVOs); and (3) a discussion of four critical human resources management issues: recruitment and staff selection, training, performance evaluation, and employee compensation and incentives. This manual provides the conceptual design and agenda for a 3- to 5-day course on human resources management, and summarizes the accompanying readings and case studies for each of the workshop sessions.

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## INTRODUCTION

This report is the result of a research and design process that began with an invitation to John C. Ickis, President of J.E. Austin Associates to (1) review work commissioned by the ARIES Project on human resources management in resource institutions for microenterprise support and (2) attempt to integrate it into a presentation to the ARIES Teaching Package Conference cosponsored with the SEEP network on March 8-9, 1990, in Washington, D.C.

The presentation consisted of three parts: first, a simple but powerful framework for conceptualizing the human resources management function within an organization; second, an application of the framework to private voluntary organizations (PVO) as they have evolved over the years; and third, a discussion of themes such as the recruitment of appropriate individuals within microenterprise resource institutions, training models to be used within these institutions, and issues of performance evaluation and compensation. A reproduction of the overhead slides used in this presentation, including annotations made in response to audience questions and comments, appears in Appendix A.

The audience included some 80 participants knowledgeable about microenterprise around the world, including representatives from A.I.D./Washington and from missions in El Salvador, Honduras, Dominican Republic, Ecuador, Bolivia, Haiti, Jamaica, Barbados, Cameroon, Liberia, Senegal, Zaire, Mali, and Egypt. The audience also included representatives from the Peace Corps in Honduras, Costa Rica, Guatemala, Dominican Republic, Pakistan, Botswana, Senegal, Lesotho, and Western Samoa; international PVOs such as CARE, Africare, CRS, World Vision, ACCION International, World Education, World Relief, and the Christian Children's Fund; consulting or technical assistance organizations such as Development Alternatives Inc., Nathan Associates, Labat-Anderson, HIID, ATI, MSI, J.E. Austin Associates, and CEDPA; educational institutions such as American University and INCAE; business associations such as NCBA and the Alexandria Business Association; as well as local PVOs such as ADEMI in the Dominican Republic and the Get Ahead Foundation in South Africa. During the question and answer period and in informal conversations that followed, many of these participants suggested the need for training in human resources management

and suggested that the concepts presented might serve as an organizing framework.

It was in this context that Thomas Timberg of Nathan Associates, who directed the ARIES project, took the initiative in drafting terms of reference for an assignment whose purpose was "to prepare the materials and programs for a 3- to 5-day course to address the particular problems in human resources management faced by promotional or support institutions for small and microenterprise (referred to as resource institutions or RIs in the ARIES casebook, *Seeking Solutions*)."

The final product was to be a report that reviewed the major issues in human resources management in RIs, based upon the presentation at the March conference (see Appendix A), expanded and supplemented with teaching cases and exercises to form the basis for the materials for the course described above.

These terms of reference were agreed to by A.I.D. with the clarification that the author would draw upon his overseas experience in Latin America and also, as far as possible, in Africa and Asia. It was also suggested that special attention be given to the role of women, not only as clients but as managers and employees of RIs. These terms were accepted by J.E. Austin Associates, which had accumulated significant experience in Africa and Asia through its Manual for Action in the Private Sector (MAPS) activities and support to management training institutions, and which had explored gender issues in depth in a project with UNFPA.

As the work commenced, it became apparent that the requirements and products as stated in the terms of reference could not be encompassed in a single report. It became clear that the course design and the conceptual paper were different, although interrelated, products. The first would describe the objectives of the course and of each session, as well as its contents. The second would provide the conceptual underpinnings of the course, based on an expanded version of the March presentation.

Moreover, as the design work on the course was begun, the need for yet a third product became evident—a bibliography of teaching cases, technical notes, and other literature on this specialized topic, in addition to a discussion of the literature search and review process. The purpose of this material was to assist others seeking information on this topic and to alert them to the dearth of materials available. As Renata Villers, who led the literature search, explained, "what we supposed to be one of the most abundant sources of literature titles and leads, a subject search of the AskARIES Database, in fact only reinforced [our conclusion] that this is as yet an undeveloped topic."

Thus, this report is organized in three parts:

Part I, Personnel Management in Resource Institutions: Developing and Motivating People for the Promotion of Small and Microenterprise, is the

expansion and elaboration of the presentation delivered at the conference, and parallels may be observed if it is compared with the overhead slides reproduced in Appendix A. It begins with a "concept of organization" followed by a description of the evolution of human resource management policies in the SME sector as these reflect the changing environments and strategies of PVOs. Issues in each of the conventional areas of human resource management as they relate specifically to RIs are discussed: overall organization and assignment of responsibilities, recruitment and selection of human resources, training, performance appraisal, and rewards and incentives.

In each of these areas, examples are drawn where possible from Ickis' experience in Latin America, Villers' experience with ACCION International, MAPS data on constraints facing the SME sector in Africa, interviews with human resources managers in ACCION and Technoserve, and from the results of a survey conducted by Courseware Development Associates. What emerges is a clear set of issues that may be addressed in depth in the Personnel Management Workshop. In essence, the conceptual paper, which is a reading assignment in the first session of the workshop, gives the participants a preview of the territory that they are about to explore.

Part II, Literature Review and Bibliography, though not contemplated in the original terms of reference, has been included because it is considered to be useful for preparing a training workshop. The discussion includes some information as to the libraries and collections that contain or lack relevant materials. The bibliography contains two types of reference: those that are specific to the SME sector such as *El Extensionaria Empresarial* by Leguizamon et al., and those that are considered to be classics in the area of human resource management, such as Herzberg's *Harvard Business Review* article on motivating employees.

Part III, The Course Design, Personnel Management Workshop for Microenterprise Resource Institutions, is believed to be one of the most conceptually solid and carefully crafted seminars ever produced for RIs on any topic. Although the final proof is in the delivery, it is hoped that it can soon be offered. The overall workshop objectives are discussed in the first section. The second section is a minute-by-minute description of the workshop, with specific objectives outlined for each session. Finally, the third section contains a list of materials to be used, with specific bibliographical references. It also contains materials for two optional add-on sessions (to follow Sessions 2 and 7), should the workshop be expanded from 3 to 4 days. It was concluded, however, that the appropriate materials for a 5-day workshop simply do not exist. It would be possible to expand the course to 5 days by reducing its intensity, which is not recommended, or by introducing some generic exercises to strengthen analytic skills or to build interpersonal competencies, which might be useful.

Together, the content of Parts I through III provide concepts, design, and materials references necessary to effectively address the issues of human

resources management in RIs. In addition, and as a part of this project, originals of each of the materials are being provided to ARIES, either with reproduction rights or with specific instructions as to how the materials may be reproduced. For example, the Harvard intercollegiate case clearinghouse, now known as HBS Case Services, provides the number of copies requested at a reasonable charge.

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**Part One**

**HUMAN RESOURCES MANAGEMENT IN  
RESOURCE INSTITUTIONS**

**Developing and Motivating People for the  
Promotion of Small and Microenterprise**

## HUMAN RESOURCES MANAGEMENT IN RESOURCE INSTITUTIONS

Developing and Motivating People for the  
Promotion of Small and Microenterprise<sup>1</sup>

John C. Ickis  
Renata Villers

Human resources management encompasses the design and administration of policies that attract, train, and motivate competent people to perform tasks essential for achieving organization purpose. This is a challenging endeavor in any organization. But in resource institutions that serve the small and microenterprise (SME) sector, such as private volunteer organizations and non-governmental organizations, government agencies and private firms, it is further complicated by the nature of the work that people must perform. Unlike commercial service organizations that compete to achieve growth or profitability, the resource institution seeks to build entrepreneurial capacity so that its clients or beneficiaries may grow and become profitable.

It is therefore not surprising that research on resource institutions has revealed that a recurrent problem facing them is "the failure to develop a capacity to identify, attract, motivate, and retain committed and effective staff."<sup>2</sup> This paper addresses this problem with approach to human resources management in SME resource organizations that is based on a simple but powerful concept of congruence among critical tasks, people in organizations,

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<sup>1</sup>This paper was prepared by J.E. Austin Associates, Inc. for the ARIES project in Cambridge, Mass., July 1990.

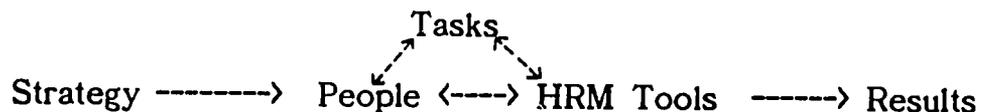
<sup>2</sup>Charles Mann, Merilee Grindle, and Parker Shipton, *Seeking Solutions: Framework and Cases for Small Enterprise Development Programs* (West Hartford, Conn.: Kumarian Press, Inc., 1989), p. 74.

and the tools and policies of the human resources manager. This concept will be described first, followed by a discussion of the application of each of the tools with specific reference to the SME sector in developing countries.

### Concept of Organization

Organizations may be viewed as "cooperative systems" of two or more individuals whose survival rests upon (1) the relevance of their purpose; (2) the quality of their internal communication; and (3) the willingness of their people to expend effort.<sup>3</sup> Purpose is the mission and strategy that guides the organization, which may be disaggregated in a series of critical tasks that must be performed. Communication is the web of structural relationships, sometimes made explicit in organization charts, through which information flows and coordination occurs. Willingness to cooperate, or to expend effort, is achieved through inducements to an organization's members, material or otherwise, to perform the critical tasks that are required by the strategy.

This concept of organization may be visualized in Figure 1. To produce the desired results, the strategy is implemented through a process of harmonizing three essential elements: the critical tasks to be performed; the people in the organization; and the assortment of tools available to the human resources manager. The way in which those tools are applied constitute the human resource management (HRM) policies. For example, the system of rewards and punishments is one of the HRM tools; payment of commissions to promoters for SME loans placed would be a policy.



**Figure 1. Organization Concept**

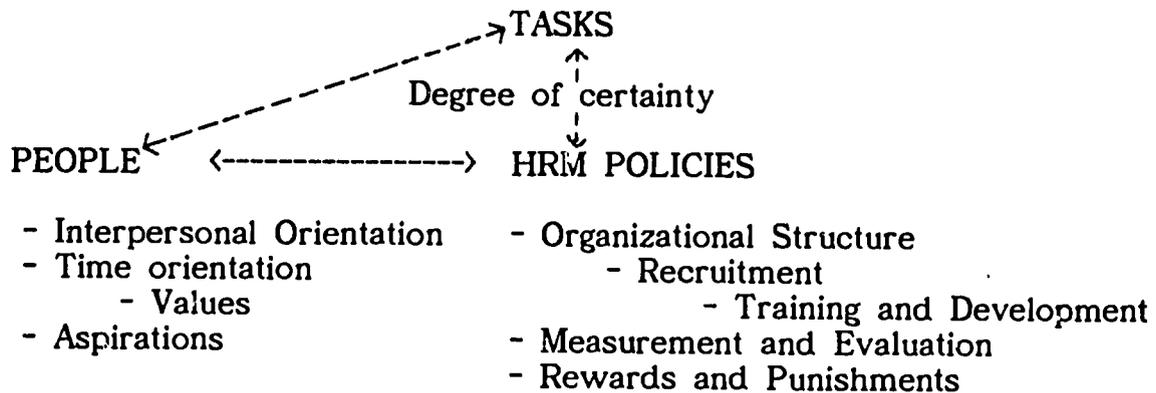
The HRM tools may be considered the instruments that empower people in organization to realize their full potential in the accomplishment of purpose. These include systems to recruit and select people with appropriate backgrounds, knowledge, orientations, and skills; systems to train and develop people to assume ever greater levels of responsibility; systems to measure and evaluate performance; and systems of rewards and punishments that provide clear signals regarding organizational

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<sup>3</sup>Chester I. Barnard. *The Functions of the Executive* (Cambridge, Mass.: Harvard University Press, 1936).

expectations. They also include the organizational structure, with its coordinating mechanisms and information flows.

Research has shown that organizations are more effective where the HRM policies are congruent with the critical tasks required by the strategy and with the values and aspirations of the people working there, as illustrated in Figure 2.<sup>4</sup> Where the tasks to be performed are routine and



**Figure 2. Organizational Structure**

predictable, as on the production line, the most appropriate systems are those that provide tight controls and rapid feedback, allowing for little employee discretion. The people best suited for these tasks are individuals who require continual feedback. Tasks that involve a high degree of uncertainty such as research and development require people with the patience, creativity, and capacity for self-supervision to go for long periods of time without feedback.

### Gender Analysis in Organization

The concept of organization as a cooperative system is gender blind in that it assumes people will be selected for the congruence between their skills and orientations on the one hand, and the requirements of the task on the other. In reality, other factors may determine who becomes a member of an organization and who is advanced through its ranks. In many societies women are responsible for managing the family economy and for the daily operation of microenterprises in the home. Yet it is the men who have access to credit, who are selected to participate in management training

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<sup>4</sup>See Paul R. Lawrence and Jay W. Lorsch, *Organization and Environment* (Homewood, Ill: Irwin, Inc., 1967).

courses for microentrepreneurs, and who relate most easily to the male staff organizations providing assistance to the microenterprise sector. Consequently, opportunities for greater congruence between client needs and institutional capabilities are often missed.

Gender analysis is a systematic process of identifying patterns of activities, resources, and decisionmaking among people in a given society for the purpose of understanding their implications for the design and implementation of development projects. It has been applied to the analysis of health and population projects by the United Nations Fund for Population Activities, including several projects with microenterprise components.<sup>5</sup> The framework for gender analysis is compatible with the organizational frameworks presented in Figures 1 and 2 in that it is focused on tasks, people, and results, but it introduces explicitly three additional concepts: (1) environmental determinants, (2) resources, and (3) decision-making processes (see Figure 3).

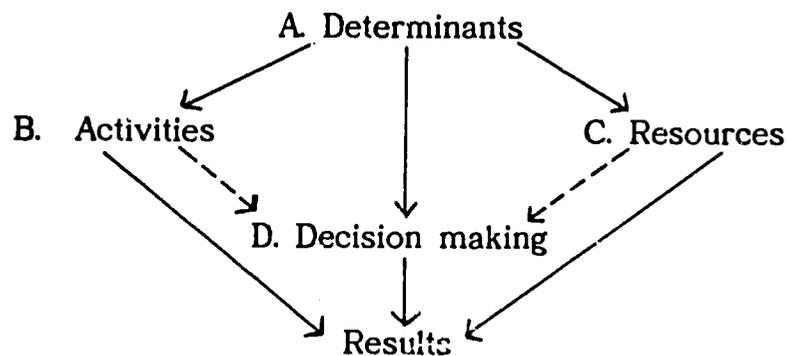


Figure 3. Gender Analysis

In gender analysis, the environmental determinants refer specifically to those cultural, economic, political, and demographic factors that determine the gender-based division of roles in a society. The first step in gender analysis is to understand how these factors shape the activities that are assigned to men and women. Such assignments differ widely from one society to another and are not simply biologically determined. What, for example, is the woman's role in the production of goods and services and how might this influence the ways in which credit, training, or technical services are provided? What cultural or other factors determine the types of jobs for which women are eligible?

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<sup>5</sup>See Mary B. Anderson, James E. Austin, and Catherine Overholt, *Gender Analysis for Project Design: UNFPA Manual* (Cambridge: J.E. Austin Associates, Inc., 1989). Microenterprise project profiles are included in pp. 166-188.

The second step in gender analysis is the identification of the basic resources that people use and who has access to or controls these resources. Access to resources such as land, credit, education, and technology are often gender biased. As a consequence, new resources introduced by micro-enterprise assistance projects may not reach the recipients that the project designers intended. In South Africa, women play a predominant role in managing black cottage industries, but with few exceptions it is the males that receive what little bank credit is available for the sector, and management courses for the micro business sector are attended principally by men.<sup>6</sup> Furthermore, lack of access to political power may make it more difficult for women to obtain employment in the state sector in many countries.

The assignment of tasks and access to and control of resources influence the way in which men and women are involved in the decisions within an organization. Such decisions may involve which clients the organization is to serve or what procedures are established for providing services, as well as internal matters such as hiring and compensation policies. These policies, specific to the small and microenterprise sector, are discussed next.

### HRM Policies in the SME Sector

Resource institutions (RIs) are those that provide support services to the SME sector.<sup>7</sup> Six types of RIs may be distinguished:<sup>8</sup>

- International private volunteer organizations (PVOs);
- National and local PVOs;
- Cooperatives (private, semi-public);

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<sup>6</sup>This conclusion is based upon several weeks' observation and interviews in the black small business sector and in institutions such as the Small Business Development Corporation by J. Ickis in July-August 1990. However, there are exceptions: most members of the Business Achievers Foundation are women; as are many recipients of loans made by the Get Ahead Foundation. See for example, Ernst & Young, *South Africa: Evaluation of the Business Achievers Foundation* (Washington: USAID, August 1990).

<sup>7</sup>The term "institution" refers to an organization that has acquired values and commitments beyond the instrumental requirements of the task. For a discussion of the process by which an organization is transformed into an institution, see Philip Selznick, *Leadership in Administration* (New York: Harper and Row, 1957).

<sup>8</sup>See Mann, Grindle, and Shipton, *op. cit.*, p. 34.

- Banks;
- Government agencies; and
- Business associations.

The prevalence of these different institutions varies widely from region to region. Business associations, for example, are widespread in the SME sector in Latin American countries but are far less common in Africa.<sup>9</sup> Similarly, the strength of the cooperative movement varies widely even within a single region. Banks are extremely influential in some countries such as Bangladesh; in other countries bank credit for the SME sector is practically nonexistent. Private voluntary organizations, in contrast, are universally active in SME development, often as local affiliates of international networks. Therefore this paper focuses primarily on human resources management in this type of resource institution.

Involvement by PVOs in the promotion of small and microenterprises is a relatively recent phenomenon. This was traditionally the sphere of development foundations and international agencies, while the better known international PVOs (Oxfam, Save the Children, CARE, Foster Parents, World Vision) concentrated on disaster relief or on welfare for the indigent. Their success and growth may be attributed in part to the congruence that existed among their service strategies, the types of people that they attracted, and their internal management policies, including HRM. In the volunteer tradition, their employees were motivated by a strong social commitment to alleviate suffering, and willingly worked long hours with little or sometimes no pay. Key HRM policies were in the areas of recruitment, training or proselytism, and job-intrinsic compensation—meaning that helping people should be pay enough.

In the early 1970s, many international PVOs were wrestling with demands to extend their services from disaster relief to social and community development. This was often a difficult transition because it implied a shift in the relationship with beneficiaries, from one of provider to one of catalyst.<sup>10</sup> The new strategy was managed, in some cases, by changing the people—gradually replacing the retiring welfare providers with community development workers fresh out of the Peace Corps. In other cases the HRM

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<sup>9</sup>In Cameroon, Kenya, and Swaziland, less than one-fourth of the firms in the SME sector belong to a business association. See J.E. Austin Associates, Inc., MAPS Microenterprise Consolidation (Cambridge, Mass., July 1990), p. 9.

<sup>10</sup>In 1973 and 1974 PVOs such as CARE and the Catholic Relief Service held a series of internal workshops to address precisely this issue of moving from disaster and welfare relief to community development.

tools of training, performance evaluation, and reward systems were used to signal the new priorities.

By the 1980s, many of these PVOs had concluded that the development of the poor communities in which they worked could not be accomplished without stimulating income generation through the promotion of entrepreneurial activities. Once again the strategies changed, but this time with little change in people. As might be anticipated by the concept of organization presented earlier, this produced stress between the requirements of the new, entrepreneurial tasks and the values and orientations of development specialists within the PVOs. A continuing challenge, and the focus of this paper, is the design and administration of HRM tools and policies that will reestablish organizational congruence.

The remainder of this paper is organized around the challenges in each of the major areas of human resources management: the structural issues that block organizational effectiveness; recruitment and selection; training and development; performance appraisal; and compensation.

### Structural Issues

One of the generally accepted tenets of management is that organizational structure follows strategy.<sup>11</sup> Where the strategic priorities of resource institutions are clearly reflected in the assignment and division of responsibility, and consequently in the descriptions of individual jobs, many of the other human resources management issues, such as whom to recruit and how to train and evaluate them, are also clarified.

One government ministry charged with promoting small rural enterprises broadened its strategy to encompass local community organization and women-in-development programs. New promoters were hired, but in contrast to the extensionists who currently serve small agricultural enterprises with highly specified procedures for technical assistance and credit, they were provided with only vague job descriptions. They received no feedback or support from the local supervisor and were passed over for promotions. Predictably, conflict arose between the two categories of personnel and what had been intended as an "integral" strategy soon disintegrated amid organizational infighting.<sup>12</sup>

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<sup>11</sup>The success of American enterprise has been attributed to its evolution of organizational structures that have met the challenges of geographic expansion, vertical integration, and product diversification. See Alfred D. Chandler, *Strategy and Structure* (Cambridge, Mass: MIT Press, 1962).

<sup>12</sup>See John C. Ickis, "Cabuya Regional Office" (Montefresco, Nicaragua: INCAE case study, 1976).

The preceding example is typical of PVOs that are organized by discipline or specialization rather than by strategy. Such conflicts can be avoided through a work-team approach in which promoters and extensionists coordinate activities that are directed at a given population. The work-team approach is more easily implemented where all members of the team are operating within the same HRM policies, and when responsibility for decision making is decentralized at the field office level.

The design of the organizational structure begins with the identification of critical tasks to be performed, breaking them into specific activities, taking into account the environmental determinants of gender roles. It then requires an analysis of the interdependencies among tasks. The extensionists in the preceding example probably observed no interdependence among their technically oriented activities and the organizing and promotional tasks of the women promoters; nevertheless they are highly interrelated and could have been mutually reinforcing. Similar and highly interdependent tasks must then be grouped and linked to other tasks through the design of appropriate coordinating mechanisms. Finally, attention must be given to processes and levels of decision making; an attempt must be made to ensure that authority for decisions is placed at the source of information for decision alternatives and with those who have responsibility for implementation.

### Recruitment: MBAs or Social Organizers?

Recruitment must begin with a clear job description and should be guided by an analysis of the attributes required for that job. SME promotion, unfortunately, may require a mix of attributes seldom found in a single individual: knowledge of the functional areas of administration; analytic and diagnostic skills at the sectoral and macro levels; understanding of the broad environmental forces that shape the development of SME; a positive attitude toward small entrepreneurs; communications skills with the client populations; and the ability to manage a participatory consulting process.<sup>13</sup>

A fundamental decision that RIs must face early in the recruitment of promoters is whether to continue selecting people with a development orientation and a volunteer spirit, with the idea of training them in the business skills needed to provide assistance to SMEs, or to seek candidates with business training with the idea of sensitizing them to development concerns. This debate on the desirability of "MBA types" versus "development

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<sup>13</sup>These characteristics were found in the most successful SME promoters in Central America. See Francisco A. Leguizamon, John C. Ickis, and Francisco J. Gomez, *El Extensionista Empresarial* (San Jose, Costa Rica: Editorial EDUCA, 1987), pp. 291-299.

types" continues, though consensus appears to have moved from a focus on social organizing to a pro-business skills position among major PVOs.<sup>14</sup>

In view of evidence that both business and social organizing skills are essential, the recruiters may be addressing the wrong question. It may not be a question of knowledge and skills but rather of attitudes—attitudes of openness and lack of rigidity that may be present or absent in either of the two types. A litmus test that has been useful in revealing this important information is described here. The test for the MBA type is the following statement that must be answered true or false: "Managing a rural health program is the same as managing a tire factory." Those who insist that the statement is true may be unable to grasp the distinction between managing resources and managing a process of people empowerment, and they should probably stick to making and selling tires.

The litmus test for social organizer types consists of the following true or false statement: "Businesses seek profit whereas PVOs seek development." Though in a strict sense the statement may be supported, the true test lies in the vehemence with which it is affirmed to be true. Those who see no side to entrepreneurial activity other than profit-seeking may be harboring a deeply held belief that anything involving business enterprises is evil and can be tolerated only if the owners are small and disadvantaged. Strong ideological convictions may make it difficult for them to acquire and use the administrative skills necessary to be of much use to entrepreneurs in the SME sector.

Other characteristics that are likely to enhance job performance, such as knowledge of the local community and gender, must also be considered.<sup>15</sup> The Grameen Bank in Bangladesh, a PVO that runs a parallel bank structure for rural landless peasants, believes that it is easier for bank promoters who live within rural communities to influence and monitor credit use than it is for those from outside the area. Consequently, Grameen only recruits local people for its field level position of branch worker. Because nearly one-half of its clients are women, the bank's recruitment policies also stipulate that one-half of its hires must be women in order to facilitate communication and understanding between bank workers and clients, although this practice later began to conflict with policies of internal promotion of women to positions

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<sup>14</sup>The final report of the PISCES II Project advocated greater emphasis on social organizing (see report, p. 135). More recently, several PVOs and especially ACCION International and Opportunities, Inc. have advocated a position of emphasizing business skills in recruiting. Memo from Thomas Timberg to John Ickis, June 24, 1990.

<sup>15</sup>It is in the area of personnel recruitment where gender analysis may be most powerful as a tool for shaping appropriate HRM policies. See Mary B. Anderson et al., pp. 1-26.

of area and zone manager. Women in Bangladesh were often unable to assume higher positions because of cultural factors that require them to stay in their home village, or "very close to it."<sup>16</sup>

The size and complexity of the enterprises served may influence RI recruiting policies. ACCION International, a PVO that provides credit assistance to very small and microenterprises in the informal sector, looks for staff members with "the ability to communicate and learn from people at every level of society."<sup>17</sup> Consequently, ACCION's recruiters are encouraged to pose direct interview questions such as: "Do you like people?" "Are you open to learn from others?" "Can you learn from microentrepreneurs, from the President of the Republic?" Candidates are then selected on the basis of professional experience and their responses to these and other job-related questions.

The selection criteria that are established will suggest where and through what medium recruitment efforts should be focused. Referrals and personal contacts are probably the most common methods of recruitment among resource institutions. Although the cost and reliability advantages of personal referrals are evident, such an approach limits the universe of qualified individuals from which to select. A broader pool of candidates can be generated through newspaper advertisements, placement notices at universities, and lists of individuals provided by business associations. One RI that provides credit to low-income, female microentrepreneurs has chosen to recruit many of its program managers and board members from local women's business associations.

The nature and formality of recruitment policies will be influenced by the size of the RI and by its regulatory environment. Larger RIs will be able to invest more in formal systems and to process more candidates, whereas the smaller ones will rely primarily on informal referrals, and they may fall under greater pressure to hire on the basis of personal or political connections. Where strict labor laws exist, or where labor organizations are particularly strong, hiring restrictions may have the effect of denying the human resource manager the use of this tool.<sup>18</sup>

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<sup>16</sup>ARIES Project, *Small Enterprise Personnel Models*, PACT/ARIES Credit Management Workshop, January 1988, p.7.

<sup>17</sup>Interview with the Director, Latin American Programs, ACCION International, Cambridge, Mass., June 1990.

<sup>18</sup>A training needs analysis report in human resources management identified this problem in some countries. See Courseware Development Associates, Inc., "Human Resources Management Training Program: Training Needs Analysis Report," Minneapolis, Minn., Oct. 2, 1989), pp. 29-31.

## Training in RIs: Hard versus Soft Skills

Training and development policies complement recruitment. Entry-level training is intended to provide the mix of knowledge, skills, and attitudes that are required for the task and that the new employee cannot be expected to possess. A resource institution with an MBA-type recruiting policy will need to orient its new employees regarding the social context and problems of the informal sector in a way that would not be necessary if they were drawn from the ranks of social organizers. Referring to the earlier concept of organization described earlier, it is important for the mix of recruitment and training policies to lead to the development of people with the appropriate skills and orientations to perform essential tasks.

A training policy for a resource institution should specify how training needs are to be determined; the areas that will be covered in the course materials; the methodologies that will be used; who is to conduct the training; how the training is to be evaluated; and how to ensure that the link is established and maintained between training, performance, and long-term career development.

### Training Content

With respect to training content, there is an ongoing debate over whether emphasis should be placed on "hard" business management skills or on the softer social organization and process skills. This debate is a reflection of a second debate over the types of individuals that should be recruited, with some insisting that courses for SME promoters focus on cash flows and cost analyses while others favor emphasis on training to raise social consciousness of the problems in the SME sector.<sup>19</sup>

Still others point to entrepreneurship as a third general area of training need that is distinct from both management techniques and social organization skills. No area has generated more controversy among SME advisers and experts.<sup>20</sup> Two arguments have been raised against this type of training for

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<sup>19</sup>The training needs analysis report conducted by Courseware Development Associates indicated a broader consensus around "soft" as opposed to "hard" skills. For example, 9 of 22 respondents selected topics such as leadership and communication whereas only 4 mentioned computerization and 1 mentioned data systems. This may, however, reflect the backgrounds and interests of the respondents more than the needs of their organizations. See Courseware Development Associates, *ibid.*, pp. 43-46.

<sup>20</sup>During a presentation of the ideas in this paper at a conference sponsored by ARIES in Washington, D.C., in March 1990, the issue of entrepreneurship training generated the most discussion among the 80 SME advisers and experts present.

promoters in RIs. The first is that entrepreneurship is an innate quality that cannot be taught. However, the results of entrepreneurial development programs in India and Malaysia provide some evidence to the contrary.<sup>21</sup> The second is that the skills and orientations of the entrepreneur as a lone risk-taker are not desirable qualities in people whose essential task is one of providing assistance to others. Again, there is evidence to the contrary; for example, in Central America, training of "entrepreneurs turned extensionists" has yielded some impressive results.

Because of the level of controversy surrounding entrepreneurship development training, it is useful to review some of the major conclusions that may be drawn from broad experience in Asia, Latin America, and Africa. The first conclusion is that not everyone can be a successful entrepreneur. There are indeed innate qualities that successful entrepreneurs possess and not everyone has these. The second conclusion is that there are certain measurable characteristics, such as the desire to achieve and the propensity to take risks, that are generally accepted as entrepreneurial traits. Third and most important, it is possible to screen those people most likely to succeed as entrepreneurs and to design training programs that enhance the special traits of entrepreneurs. A fourth conclusion is that in addition to successful entrepreneurship, solid management skills are required to develop a profitable small enterprise. This has led to a fifth conclusion, that the best results from training are achieved when entrepreneurial development training is integrated with management training and linked to a program of technical support.<sup>22</sup>

Such integration has been incorporated in training programs offered to entrepreneurs and RI personnel by the Instituto Centroamericano de Administracion de Empresas (INCAE) in Central America. INCAE developed a 3-week program to train "entrepreneurial extensionists" that includes modules on (1) the basic elements of administration most important to the SME, such as the management of current financial assets; (2) development of participatory consulting skills; (3) and exercises in the stimulation of creativity and risk-tasking. A highly interactive methodology is used in which those with more business knowledge are able to help others in study groups. Case discussions involving issues of social organization provide a setting in which participants with different backgrounds and perspectives exchange opinions

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<sup>21</sup>These entrepreneurship programs include an effort that began in Gujarat, India, by David McClelland, based on the concept of achievement motivation. By 1979 it was reported that 828 new business units had been developed, and another 2,085 were developed by 1984. For a discussion of entrepreneurship development programs in developing countries, see Samuel Paul, John C. Ickis, and Jacob Levitsky, *Educating Managers for Business and Government* (Washington, D.C: World Bank Discussion Paper, June 1989), pp. 87-95.

<sup>22</sup>Paul *et al.*, *ibid.*, pp. 94-95.

and confront differing values. The entrepreneurship exercises during the final week have led to specific business plans and investments.<sup>23</sup>

Initially, participants were employees of the ministries of industries or worked for programs sponsored by business associations. In Guatemala and Panama, however, some microentrepreneurs participated, leading to the formation of separate associations of extensionists who worked on a voluntary basis with INCAE support.

Other regional management institutes such as the Asian Institute of Management in the Philippines and the Indian Institute of Management in Ahmedabad have also played a valuable support role in training of trainers. Moreover, several of the larger RIs have developed their own specialized training programs to better enable staff to carry out the organizational mission. ACCION International has developed a series of three required workshops in management and communication to promote increased staff initiative, greater internal assumption of responsibility, and increased understanding of their role as facilitators of change with clients externally. Employees at all levels of the organization are required to attend these sessions, and country program offices close down once or twice a year when they are held. One of the courses deals with the issue of how people change. It aims at teaching staff through group exercises that people must change themselves and that staff members do not change people, either as supervisors or as advisers of clients. Instead, supervisors and business advisers must respect the integrity of others and learn to view themselves as facilitators. Group exercises are also used to teach staff to delegate responsibility and to encourage and accept initiative. Although these themes challenge some Latin American cultural norms, ACCION International's executive management believes that this unconventional management style is a drawing card for those Latin Americans that prefer a more open environment that promotes individual initiative and respect.

BRAC, an indigenous Bangladeshi organization and one of the largest PVCs in the developing world, has developed a sophisticated training program to promote its unique concept of rural development and empowerment of rural landless peasants. With more than 40,000 employees, BRAC has set up training centers around the country to develop its staff. Training for new entry-level managers in BRAC's credit and infrastructural support program involves (1) a 2-week introduction to BRAC's development model; (2) supervised field work; and (3) modules covering group organization, leadership development, and communication. Rising in the

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<sup>23</sup>This experience is documented in Leguizamon *et al.*, *op. cit.*, pp. 299-322.

organization requires completing subsequent phases of management training offered according to seniority.<sup>24</sup>

Several common threads run through the successful training examples. First, content is based on a realistic assessment of training needs, which is in turn a function of the critical tasks to be performed and the knowledge, skills, and orientations of the people, whether they be new recruits or long-time employees in refresher courses or preparing for new responsibilities. Second, it is unlikely that training needs will be confined to a single area but should encompass the technical, social, and the entrepreneurial. Third, content should not be considered apart from methodology but as an integral experience. Finally, the most effective training programs are those in which there is constant experimentation.<sup>25</sup>

### Selection of Trainers

Should outside or inhouse trainers be used? If the latter, how can they be developed? In BRAC, described above, all of the trainers come from within the organization and therefore have experience in the field. As insiders they are viewed by staff trainees as having more credibility. (There are, of course, some exceptions in which BRAC has brought in outsiders when the organization lacked internal experience in a given skill or technical area.) BRAC has also created a training of trainers program, to increase trainer effectiveness, and special training campuses with facilities to maintain ongoing training under optimal conditions.<sup>26</sup>

ACCION International, which runs 44 programs in 12 Latin American and Caribbean countries, uses its outstanding field program directors to train and disseminate skills they have used effectively in their programs to train other program managers. Signaling top management's support and commitment to the importance of open communication, ACCION's Latin American Program Director co-facilitates the Seminar on Management and Communication in which all field staff participate.

These experiences suggest that the use of inhouse trainers contributes to effective programs in large RIs when complemented with external trainers in specific areas. This may not be an option available to the smaller RIs.

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<sup>24</sup>This training program is described by Catherine Lovell in "BRAC (B): Management Development Program" in Mann *et al.*, *Seeking Solutions, op.cit.*, pp. 143-150.

<sup>25</sup>For additional guidelines on the design of training programs, a useful source is Rolf P. Lynton and Udai Pareek, *Training for Development* (West Hartford, Conn.: Kumarian Press, 1978).

<sup>26</sup>See Lovell, "BRAC (B)" *op. cit.*, pp. 144.

Some, like South Africa's Get Ahead Foundation, may rely upon internal mentoring and tutoring;<sup>27</sup> others may seek to send one or two of their key staff to externally offered courses.

Although the content, methodology, and instructors are clearly the most important determinants of a successful program, there are other significant factors. First is the preparatory work in creating the necessary internal support for the program. Many PVOs have a tradition of at least encouraging grassroots participation, and their field staffs are apt to reject initiatives in which they have had no opportunity for involvement. The most thorough training needs assessment is of little value if there is no sense of ownership by the people in the organization.

Such decisions as where to conduct the training, that may appear operational, acquire significant importance in programs with multifaceted learning objectives. One model that is used by several successful microenterprise assistance institutions is to teach specific skills, such as financial analysis or communications, in groups off-site, while teaching contextually related skills and providing job orientation in the field. The Grameen Bank, for example, conducts contextually oriented, job specific, training in the field and training in special skills in off-site group classes.

### Training and Performance

The relationship between training and later, on-the-job performance is a problematic issue in any type of organization, but in the RI this is complicated by problems of performance measurement, discussed next. One training-of-trainers program for SME promoters was proclaimed successful because the value of sales of the enterprises they were assisting increased during the year following the program. It may in fact have been successful, but the relationship is tenuous. Sales increases could be due to favorable market conditions or to inflation. The promoters may or may not have contributed, and the program may or may not have enhanced that contribution.

There are four levels at which training for SME promoters might be evaluated.<sup>28</sup> The first, and most basic, is to elicit the immediate reactions of the participants through the application of a questionnaire. This is the most simple, and the feedback is useful for instructor selection, but it is of limited value in the evaluation of the final results of the training effort. The second level goes beyond participant reactions and seeks to ascertain what they have learned. This is most appropriate where the objective of the training is the

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<sup>27</sup>Get Ahead Foundation, *Annual Report 1988/1989*, Pretoria, Republic of South Africa.

<sup>28</sup>For further discussion of the evaluation of training programs, with specific reference to PVOs, see Lynton and Pareek, *op. cit.*, pp. 299-324.

acquisition of specific knowledge such as the procedures for extending a small business loan. However, business school experience indicates that grade averages are a poor predictor of future success as judged by earnings. The third level seeks to identify changes in on-the-job behavior, such as the introduction of innovations or improved relationships with clients; and the fourth seeks to measure results in terms of the institutional mission. Positive evaluations at these higher levels are what justify the training expenditure, but measurement becomes much more difficult, and as in the earlier example of increased SME sales, causality becomes almost impossible to verify.

Changes in behavior achieved through training must be reinforced if they are to endure. A decision-making workshop might motivate a field worker to take more initiative, but this new behavior will be short-lived if his or her immediate supervisor becomes angry every time he or she takes charge of a situation and tries to resolve it creatively. This has been typical of the responses of Indian and Bangladeshi government supervisors when field workers have bypassed lengthy bureaucratic processes to resolve a crisis.

### Performance Appraisal: A Minefield for RIs

Performance appraisal includes the design and administration of systems that measure employee performance, evaluate that performance against objective standards, usually contained in the job description, and provide timely feedback. The information generated in this process may serve as a basis for promotions, dismissals, transfers, merit increases, or invitations to participate in training activities. Performance appraisals also may motivate employees, encourage supervisors to do a more thorough coaching job, and identify people with potential.

Because of its close relationship to another HRM tool, the system of rewards and punishments, performance appraisal arouses feelings of anxiety in any organization. The literature abounds with warnings as to the pitfalls of performance appraisal,<sup>29</sup> including unequal standards among evaluators, personal biases, defensive behaviors, and zero-sum systems that demotivate almost everyone. In view of these potential dangers, RI managers may legitimately ask if they really need a formal performance appraisal system.

The answer is yes. If managed properly, performance evaluation is a potentially powerful tool for human resource development and organizational

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<sup>29</sup>Some of the better-known articles describing these pitfalls include Douglas McGregor, "An Uneasy Look at Performance Appraisal," *Harvard Business Review* (May-June 1957); and Winston Oberg, "Make Performance Appraisal Relevant," in *Manage People, not Personnel* (Boston, Mass.: HBR Book Series, 1990), pp. 233-246.

effectiveness. Beyond the purposes served by performance appraisal data and the motivation that may occur through positive reinforcement, it provides a context for the setting of goals, objectives, and workplans between supervisor and subordinate that serve as agreed-on benchmarks between them.

Managers of some RIs are apparently aware of the value of a good performance appraisal system. A survey conducted of RIs in 1989 indicated that a widespread recognition exists among them that performance should be measured and evaluated. Eight of the 21 RIs surveyed had "some kind of performance evaluation," whereas only 7 had "some kind of job description."<sup>30</sup> At the same time, only 4 out of the 21 expressed the belief that "fair evaluations increase employee motivation," implying that they may not know why performance evaluations are important nor understand their relationship to job descriptions. The use of this HRM tool is of particular importance in the RI for four reasons:

1. Even in the few cases in which job descriptions do exist, the "task" of an RI may be somewhat ambiguous at the field level, so it is important to agree on performance expectations. For example, what is to be measured? One government ministry chose to evaluate and reward its promoters for forming new cooperatives. As a result, dozens of coops sprang up in rural areas, each with the legal minimum of 15 members, and only a few were active a year later.
2. The PVO background of the RI may give it a strong nonhierarchical bias so that participation is an important quality. In this case, face-to-face discussions and agreements among superior and subordinate provide opportunities for two-way feedback.<sup>31</sup>
3. As advisers to small business, RIs should set an example of good management practice, including participative management by objectives (MBO) and results-oriented evaluations.
4. As facilitators in the development process, RIs need to recognize that developing an internal ability to address the personal and professional development needs of local staff will also help to establish a pattern for external relationships with clients.

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<sup>30</sup>Courseware Development Associates, *op. cit.*, p. 39.

<sup>31</sup>Levinson recommends a performance appraisal process in which both superior and subordinate are evaluated by one another, though there will be cultural barriers in some developing countries. See Harry Levinson, "Management by Whose Objectives?," *Harvard Business Review* (Jul.-Aug. 1970).

Although performance evaluations have also been used by RIs to establish merit pay increases, this is a treacherous minefield because of the inevitably subjective nature of performance reviews. If ratings are perceived to be arbitrary or inequitable, the effects on employees can be especially demotivating and counterproductive. Even when persons are rated on achievement of quantifiable outcomes, such as the number of new clients served, the system can be of dubious reliability if problems in controlling for external influences outside the managers control are not taken into consideration.

For these reasons, it is a mistake for the RI manager to place emphasis on the performance rating as a basis for merit increases. To do so would threaten the congruence among task, people, and HRM policies. Many of the tasks involve a team effort, and the people in many RIs are motivated by the intrinsic nature of these tasks rather than by the value of material rewards. Performance appraisal policies that place greater emphasis on material rewards and that foster competitive rather than cooperative behavior among promoters are clearly inappropriate.

The true value of performance appraisal for the RI is in the opportunity that it provides for face-to-face, two-way dialogue that reinforces the value of participation and organizational openness. An effective approach to performance appraisal combines the two-way interview with the MBO process by which employees are evaluated in terms of job objectives that are established and agreed on between the employee and supervisor at the beginning of the evaluation period. To the extent that the employee is involved in setting the objectives, the process can actually empower staff and assist them in becoming more goal oriented.

Technoserve's programs in Africa and Latin America incorporate both these techniques in its performance evaluation of field staff. An initial establishment of goals involves both supervisors and employees who set goals separately before a meeting to discuss and work out joint objectives for the employee. A face-to-face discussion of accomplishments and progress toward meeting objectives is reviewed at year's end. During the review, supervisors explore areas of employee strength and weakness. Weaknesses are discussed in terms of what the employee and supervisor believe can be done to overcome them. Alternatives range from more supervisory support to enrollment in outside technical or management courses that Technoserve frequently uses to further develop and reward effective employees.

In addition, the performance appraisal meeting can be used to focus on personal and professional development goals. Also, Technoserve's performance appraisal methodology attempts to generate a discussion of these development goals. Typically during the annual review the employee will be asked if he or she would like to work toward attaining another position within the organization. Supervisors are then instructed to explore whether this is realistic in terms of the joint review of the employee's effectiveness and

ability to assume increased responsibility. Where it is possible in terms of job turnover, resource availability and joint assessment of ability, employees are helped to gain needed skills and to attain higher level positions within the organization. Technoserve's Norwalk headquarters encourages a mid-year, or even more frequent review of objectives, in order to keep them current.<sup>32</sup>

To the extent that the RI uses work teams, a team discussion of objectives and performance should be encouraged. ACCION International promotes the use of group meetings among regional business advisers to discuss objectives, review group progress, recount problems and to provide each other with ongoing feedback and support. This informal mechanism for providing ongoing feedback and support can often be less threatening and therefore highly effective. ACCION combines the informal meetings with a formal measurement of the performance of business advisers based on three criteria (1) the amount of their total loan portfolio, (2) the percentage of late payments, and (3) the number of new clients reached.<sup>33</sup>

One of the keys to successful performance evaluation by RIs is to focus attention on behaviors rather than on character traits. Discussing what was done to move toward accomplishment of agreed on objectives or how an assignment was handled helps to address behaviors constructively. Use of critical incidents, that illustrate specific behaviors, such as a manager arriving early for a seminar that he or she is hosting to assist subordinates in setting up, also helps to provide useful feedback—both positive and negative. The upward appraisal, in which employees appraising their boss, has also been used at ACCION to facilitate two-way feedback and to empower employees to articulate their needs and concerns directly. Other factors that can improve the performance appraisal include agreeing with the employee, ahead of time, on the process and content of the evaluation. In addition, holding the appraisal in a relaxed and private setting can also reduce tension and facilitate two-way communication.

In developing countries where hierarchical, paternalistic relationships are the norm, managers and employees alike may lack experience with reciprocal relationships. One of the major challenges to implementing effective performance appraisal systems, then, is the reeducation of managers and employees so that each understands and feels comfortable with his or her role in giving and receiving feedback. Other cultural sensitivities that require attention may be more regional in nature.

It is interesting to note that BRAC, in Bangladesh, with its development of sophisticated and to some extent culturally divergent training programs, has

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<sup>32</sup>Interviews with Technoserve personnel, June 1990.

<sup>33</sup>Interviews with ACCION International personnel, Cambridge, Mass., June 1990.

not attempted to formalize a performance appraisal system. Instead, similar in part to ACCION, the organization has created a group support and feedback mechanism through institutionalizing weekly staff meetings to discuss problems and plan the next week's activities. People familiar with BRAC and with work in Asia are not surprised. They point to numerous cultural characteristics that would tend to impede the use of formalized appraisal systems, including respect for elders that would make it awkward for a younger person to evaluate one of their elders, an expectation of automatic promotion based on age or seniority rather than merit; and the high levels of anxiety aroused by discussions of the job in a society experiencing high unemployment.

Technoserve's Director of Personnel in Norwalk recognizes that successful introduction of the concept and method of conducting a participative performance appraisal requires some training of country directors and their staffs. But Technoserve's personnel department has yet to persuade management to allocate the additional funds that the department believes are necessary to train directors in the implementation of performance appraisals. As a result, the personnel office, which reviews country program performance appraisal write-ups, believes that there is still a substantial difference between the way performance appraisals are conducted and the way headquarters would like to see them conducted.

Several issues arise in assisting supervisors to conduct effective performance appraisals. First, supervisors need to learn to listen to their employees and to see them as trustworthy, responsible beings capable of taking on significant responsibility. These views are often in opposition to prevalent management attitudes toward employees in developing countries. Second, supervisors must learn to allow employees to take responsibility in their work, which requires playing a supportive rather than the traditional paternalistic role that discourages employee involvement. Third, supervisors must be able to see the benefit of conducting the appraisal, and they must become committed to the process rather than viewing it as an obligation.

Similarly, employees being evaluated must learn to participate in setting their own job objectives and must view themselves as responsible for managing their work. In addition, employees need to learn to trust their supervisor and to talk openly with him or her about their subjective assessment of their own performance. Employees need to feel sufficiently comfortable with their supervisor before they can share with him or her their needs and concerns on the job. Although infrequent, Technoserve's African-based programs have experienced special difficulties in fostering two-way communication between hostile clans or tribes working within the same organization.

Performance appraisal can indeed be a minefield, provoking feelings of hostility and defensiveness among employees, but this HRM tool, if well applied, can enhance organizational performance and commitment in ways that have been discussed earlier. Some useful generalizations can be made about

the use of this tool. First, because performance appraisal is so closely linked to the other HRM tools of structure and job description, training, and compensation, special attention must be given to its consistency with other HRM policies. Performance appraisal should reinforce and not obfuscate the messages regarding organizational expectations.

Second, the ideal performance appraisal process is one that is an integral part of the goal-setting process of an organization, in which commitments are negotiated in an atmosphere of openness and trust. Third, the anxiety surrounding performance appraisal can be reduced through the use of multidimensional and non-zero sum evaluation criteria. Finally, the process can be enhanced by introducing upward appraisals and team appraisals.

### Compensation: Volunteer Traditions and Market Imperatives

The idea that people are economically motivated, long held by the proponents of scientific management,<sup>34</sup> was directly challenged by the notion that money is not a motivator but a hygienic factor that can produce, at best, lack of discontent, or at worst, extreme discontent among employees.<sup>35</sup> To anyone that has managed an organization, this is self evident. A merit pay increase can spur an extraordinary effort by an employee, but this is in response to the positive recognition that the increase implies, and it is short-lived.

Therefore, the modest objectives of a system of rewards and punishments should be twofold: to discourage dysfunctional behaviors and to avoid employee dissatisfaction. In RIs, where material rewards are presumably less important to people than they would be in a commercial organization, the achievement of these modest objectives would appear to be simple. In fact, it is not, because of the peculiar evolution of these institutions that was described earlier and because of the recruitment policies pursued by some.

The early PVO tradition was to pay staff and field workers at lower than market rates. Some earlier employees actually volunteered time; others gladly accepted financial sacrifice out of a sense of commitment to the poor. Low pay levels were not only important to maintain financial viability but

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<sup>34</sup>Management literature of the early twentieth century was based upon the assumption that people responded almost exclusively to material rewards. Frederick Taylor and Henri Fayol were among the chief proponents of these theories, known as "scientific management."

<sup>35</sup>Frederick Herzberg, "One More Time: How Do You Motivate Employees?" *Harvard Business Review* (Jan.-Feb. 1968).

also acted as a screen to discourage the uncommitted, opportunists, and nonbelievers. This tradition has continued in many RIs to the present day.<sup>36</sup>

Low pay scales may also drive away the competent, however, as evidenced by the experience of public sector institutions in developing countries. As these PVOs became more involved as resource institutions providing assistance to small and microenterprise, these compensation policies acted as a barrier to recruiting people with the skills and experience required. ACCION International faced this problem in its attempts to recruit experienced microbusiness advisers for its Costa Rican program. Initially the program was able to attract only recent university graduates lacking the experience and management skills required for working with the microenterprise sector. ACCION eventually decided to change its compensation policies to attract more seasoned professionals.

Not all local RIs are able to pursue this path because of resource limitations. Most are highly dependent on grant funding, the levels of which are highly uncertain from one year to the next, and it is important for them to maintain fixed costs at a minimum. The goal of financial sustainability through revenues generated by services is still on the distant horizon for many RIs.

Nevertheless, pressures on RIs to pay competitive salaries appear to be increasing. This creates a need on the part of human resource managers to identify exactly what is a competitive salary, not always an easy assignment in countries where such information may be carefully guarded. Fortunately, there are a number of international accounting and consulting firms that specialize in gathering compensation data (RIs can participate in these services for a fee),<sup>37</sup> enabling comparisons of wage levels with other private and public sector organizations. Where studies are unavailable or too expensive, RIs can conduct their own informal surveys, comparing the total compensation packages offered for specific jobs (as defined by tasks as opposed to titles) across a range of public and private sector organizations. The market for a specific job should encompass all of the other organizations in which someone with similar talents and experience could be hired to perform a given set of tasks. Merely comparing wage rates among PVOs may lead to a false impression of relative wage levels if individuals with similar backgrounds and abilities are just as likely to be hired into private sector companies.

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<sup>36</sup>The Courseware Development Associates survey of RIs revealed that the employees of over half believed that they had "relatively low" compensation. This was particularly true of local PVO's, many of which had their beginnings with unpaid volunteers. *Op. cit.*, pp. 32-33.

<sup>37</sup>The most common are Hay Associates, Coopers and Lybrand, Price Waterhouse, and Peat Marwick.

Directly related to this issue of market versus below market salary levels in RIs is the use of monetary incentives to motivate employees. By maintaining low basic salary levels but providing additional rewards based on performance, PVOs may be able to at least maintain the illusion of sacrifice while enhancing sustainability through reduced fixed costs.

The term incentive implies an exchange in which "I'll give you this if you do that for me." It is an inducement to higher levels of performance with the expectation of a corresponding reward. Incentives are common in sales organizations and in certain types of production operations. However, they can cause severe demotivation if performance is subject to exogenous factors; for example, in the case of a salesperson who has his or her territory subdivided or a production line worker who is machine-paced.

Incentives have been criticized as positive "kicks in the seat of the pants" that may produce movement, but that will not produce motivation.<sup>38</sup> Nevertheless, incentives have come to be accepted as a normal part of the compensation package in many organizations, including some RIs. Roughly 20 percent of ACCION International's programs use monetary incentives to supplement business advisers' salaries. Incentives are based on the quantitative performance evaluation criteria determined by (1) the number of new clients generated; (2) the size of their loan portfolio and; (3) the late payment rate of their clients. Although those country programs that have opted to use the system believe that it has led to improved performance, modifications have been required to ensure that poorer, more risky clients (that typically receive smaller loans) continue to receive needed attention.

In contrast, few local RIs use pay incentives.<sup>39</sup> Of six human resources models reviewed by the ARIES project, only one—the Community and Enterprise Development Project in Senegal—had an explicit, performance-based bonus program. A bonus of 3 percent of the principal and interest repaid to the project was paid to field advisers, but at the same time they were charged a penalty of 27 percent of the amount not reimbursed on bad loans. Although this bonus program was considered to be a powerful incentive and reportedly had a positive impact on repayment rates, it was extremely costly to the program as a whole, representing up to 25 percent of the total earnings. Also, because the bonus addressed only one aspect, loan repayment, it may have had a negative effect on other aspects, such as promotion of new loans. Finally, the bonus in Senegal did not include supervisory personnel, which could negatively affect the support provided to field advisers.

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<sup>38</sup>Herzberg, *op. cit.*

<sup>39</sup>Fewer than 10 percent of the RIs in the Courseware Development Associates survey used incentives.

Some fear that the use of material incentives encourages "by-the-numbers" behavior at the expense of quality service. Others argue that they should be more widely used. One SME expert expresses the view that material rewards and incentives, when carefully constructed, should be more widely introduced to encourage RIs to focus on output.

As in most human resources management decisions, there is no correct answer regarding the payment of market salary levels and the use of material incentives. However, there are certain considerations that are useful in determining the most appropriate course of action for a specific RI.

One must begin with an assessment of the overall viability of the strategy, recalling the preconditions for organizational survival that were given at the outset of this paper. No organization can continue to survive if the inducements that it must pay its employees for their efforts are greater than the benefits yielded by the strategy. This may present the RI with critical strategic choices: broaden its client base, seek additional grant funding, or cut its fixed costs by dismissing employees. This strategy exercise will establish the parameters in which HRM policy decisions may be made.

Assuming availability of resources, the salary level decision will depend on the people in the organization, their values, and aspirations. There are some religious-based PVOs in which below-market salaries are the acceptable norm, and to change this would be to affect the organization's fundamental values. The more common trend, however, is to move toward a market-based compensation policy, and RIs without a captive source of recruits such as religious inductees, will probably have to adapt their policies to the market or become noncompetitive.

Decisions about incentives must be made with the recognition that they are only one part of a broader HRM strategy and that they must be consistent with the other parts. Will the incentives help focus attention on results and serve as sources of positive feedback that motivate the field worker, or will they encourage dysfunctional behaviors and induce internal competition where teamwork and collaboration are necessary?

Incentives and compensation policies must also be analyzed in the context of the total rewards provided by the RI, including nonmaterial rewards. One of the greatest sources of motivation for many who work in RIs is the identification with institutional purpose and the stimulation of doing something that will make a difference. Other nonremunerative sources of motivation include development of increased community status related to their role as a business adviser and a higher level of personal independence. At ACCION International, creation of a field work environment in which employees are encouraged to take initiative and are given a high-level of responsibility and independence stimulates task-intrinsic motivation.

It should also be noted, however, that in very poor countries with significant levels of unemployment and underemployment, such as Bangladesh and Chad, the principal reward may be to have a job in the formal sector that provides more long-term stability. If they also identify with the organization's goals, then this is an additional bonus. For those with formal education, an RI may also provide a unique opportunity to use skills developed through years of study. To the extent that an institution is aware of these motivational factors, it can consciously look for people who respond to them and help to preserve and build on them over time.

### Putting It All Together

The responsibility of the manager, then, is to seek congruence between the institutional mission and goals, the nature of the essential tasks to be performed, and the motivations and capabilities of the people in the organization. This is accomplished, in large part, through the design and administration of five types of HRM tools and policies discussed in this paper: (1) the basic organizational structure and the individual job descriptions that make up that structure, (2) recruitment and selection, (3) training and development, (4) performance measurement and feedback, and (5) rewards and incentives. Until now the focus has been on issues that relate to each of the individual tools. More important, however, is the way in which the human resources management strategy is shaped as a coherent whole. Consider, for example, two very different models of human resources management, each of which is internally consistent: the National Development Foundation of Honduras (FUNADEH) and Manila Community Services, Inc. (MCSI).

FUNADEH is a competitive model in every sense. The extension and promotion officer, called the EPO, is carefully selected for his or her higher-level training in accounting, finance, and other management-related fields. Extension and promotion officers receive competitive salaries and are compensated for the use of their personal vehicles in the performance of their jobs. They are essentially autonomous, acting as their own boss, and are generally recognized as small business experts. Their goals are clearly defined and their performance is measured in terms of loan applications processed, loans approved, and payback rates.

Manila Community Services, Inc. is by contrast an outreach program staffed by volunteer community leaders who receive no formal compensation. Its clients are graduates of a skills training program run by MCSI who are seeking seed capital to start their own microenterprises. Unlike FUNADEH, the emphasis is not on revenue generation through loan volumes but rather on encouraging the growth and development of the microenterprise sector among the rural poor. To be viable, this requires a minimal cost structure and a high degree of flexibility, which are achieved through the use of indigenous community leaders. By tying the loan program and the selection of volunteers

to the skills training, high repayment rates are attained and high levels of motivation are sustained through continued identification with MCSI.

These and other successful experiences cited in this paper suggest that for RIs there is no one correct strategy for achieving microenterprise development nor is there one correct model of human resources management. It is equally clear that human resources management policies must be carefully crafted in response to the strategy in order to achieve congruence. Where such congruence exists, as in FUNADEH or MCSI, there is evidence that performance will be superior. This requires an understanding not only of each of the tools of human resource management, but also of the interaction among them, so that a mix of tools may be used together with appropriately designed policies to achieve institutional purpose.

**Part Two**

**LITERATURE REVIEW AND BIBLIOGRAPHY**

# HUMAN RESOURCES MANAGEMENT FOR ENTERPRISE PROMOTION

## Literature Review

A literature search and review was conducted to expand the information used in the Report on Human Resource Management for Enterprise Promotion and to identify supplemental cases and readings for design and use in a 3- to 5-day seminar. The sources used include literature identified by Nathan Associates; an AskARIES knowledgebase search; cases and readings available through the Harvard Institute for International Development (HIID); cases, books and readings available through the Harvard Business School; and extensive interviews with practitioners working with SME promotion programs in Africa, Asia, Latin America and the Caribbean.

The literature search demonstrated that although much has been written on human resource management for corporations little has been developed to address an equivalent set of issues for RIs. What was supposed to be one of the most abundant sources of literature titles and leads, a subject search of the AskARIES knowledgebase, only reinforced the view that this is as yet an undeveloped topic. Although the database search did generate nearly 100 titles and summaries of cases and literature, most dealt only tangentially with the areas of interest or with topics, such as communication, that we did not explicitly cover in the report. Other case leads gleaned from this search, nearly all of those not included in the ARIES volume *Seeking Solutions*, when reviewed at the HIID library, proved to lack important information and were too poorly focused to be used in this project. (The exception was the few cases developed at INCAE, affiliated with the Harvard Business School.)

Not surprisingly, the most appropriate cases were those included in *Seeking Solutions*, of which all of the relevant ones have been identified and incorporated into the workshop agenda. Other cases relevant to the SME sector have been developed at INCAE and were recommended by colleagues. In addition, these cases have been reviewed and included where appropriate. To supplement the topics dealt with in these RI-specific cases, several, effective Harvard Business School cases have been selected that deal with human resources management issues in the context of running a service organization (manufacturing cases were dismissed as not being sufficiently

similar in nature to the operation of RIs). Important articles and texts on human resources management, such as *Organization* by Kotter, Schlesinger, and Sathe, and a number of *Harvard Business Review* reprints by prominent people in the field, were reviewed and used as references along with other materials, professional experience, and interviews. A number of the more relevant *Harvard Business Review* reprints have also been included as required reading for the proposed workshop.

Finally, personal and telephone interviews were conducted with practitioners in eight RIs operating in Africa, Asia, Latin America and the Caribbean. The interviews were extremely useful in generating examples of current practices and in gaining practitioner insight on which human resources policy issues to focus on and which are viewed as problematic. The interviews indicated that the issues of most concern and least understood involve developing training; design and administration of performance appraisals; and rationalization of compensation systems, including use of incentive pay. Consequently, these issues are given more attention in the report.

In general, the literature search and review confirmed the finding of earlier ARIES work done by HIID, that this is an area of relative RI weakness and that RI-specific literature is virtually nonexistent. We believe that the paper by Ickis and Villers, "Developing and Motivating People for the Promotion of Small and Microenterprise" in this report presents an opportunity to share our ideas and experiences about human resources management issues with the RI community at large. These findings suggest the need to develop more cases and to conduct workshops to promote an exchange of perspectives and increase the community's awareness and understanding of these important issues.

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**Part Three**

**HUMAN RESOURCES MANAGEMENT WORKSHOP FOR  
MICROENTERPRISE RESOURCE INSTITUTIONS**

## Section I

### WORKSHOP OBJECTIVES

In response to one of the identified needs of the ARIES project, the workshop is designed to strengthen the human resources management skills of staff members at small and microenterprise support institutions. An intensive 3-day workshop, the seminar is divided into eight sessions that examine four critical human resources management issues: (1) recruitment and selection, (2) training, (3) performance evaluation, and (4) employee compensation and incentives. Employing a mixture of cases and in-class exercises, the workshop is designed to be highly participative, calling for active learning on the part of seminar participants. Where possible, cases are drawn from the body of small and microenterprise support literature and have been supplemented by relevant private sector cases developed by the Harvard Business School.

Section II contains a daily workshop agenda that highlights the objectives of each of the eight sessions. Section III provides a reading list of cases and accompanying readings for each of the sessions. Section IV provides recommended cases and readings for an additional four sessions that can be added either jointly or independently in the event that a client desires to expand the seminar beyond the 3 days outlined in the workshop agenda. It should be noted, however, that the best material has been used in the present agenda. Although the four Harvard Business School cases presented in Section IV are strong, they are not per se microenterprise cases, given that they have been fully used in the 3-day agenda.

**Section II**

**WORKSHOP SCHEDULE**

**Workshop Day 1**

*Introduction to the Workshop*

*Objective:* Explain the purpose, content, and methodology of the workshop. To inscribe participants, distribute materials, and divide them into study groups for the purpose of discussing cases and exercises.

8:30 - 9:00 a.m.	Inscription and Distribution of Materials
9:00 - 9:45 a.m.	Orientation and Instructions to Study Groups

*Session 1: Introduction to Personnel Management*

*Objective:* Introduction to the concept of human resources management in the context of a resource institution. Discussion of the various human resources management issues that confront resource institutions and their relation to the achievement of institutional strategy and goals. ADEMI's Executive Director must think through the human resources management implications of an expansion strategy for this Dominican-based microenterprise assistance institution. The decision involves implications for personnel selection, training, performance evaluation, motivation, and compensation.

9:45 - 10:45 a.m.	Individual Study, Case 1: ADEMI
10:45 - 11:00 a.m.	Coffee Break,
11:00 - 12:00 p.m.	Group Discussion, Case 1: ADEMI
12:00 - 1:00 p.m.	Lunch
1:00 - 1:30 p.m.	Plenary Session, Case 1: ADEMI

### **Session 2: Recruitment and Selection of Qualified Personnel**

**Objective:** Recognition of internal staffing needs, development of recruitment strategy, selection of personnel that can best address organizational needs and employee assimilation. Competitive changes in the U.S. market demand that United Parcel Service consider hiring technical expertise that is unavailable inhouse. Whether, when, and how the new employees were to be hired and assimilated, and the extent to which the UPS culture and/or the new employees would have to adapt, are the key questions.

1:30 - 3:00 p.m.	Individual Study, Case 2: United Parcel Service
3:00 - 4:00 p.m.	Group Discussion, Case 2: United Parcel Service
4:00 - 5:30 p.m.	Plenary Session, Case 2: United Parcel Service

### **Workshop Day 2**

### **Session 3: Determining and Prioritizing Training Needs**

**Objective:** Determination of appropriate training needs and prioritization of those needs. The case focuses on the need to improve internal program management capabilities for this Bangladesh rural development program. Discusses previous staff training and thoughts on design for an upcoming internal training program.

8:00 - 9:00 a.m.	Group Discussion, Case BRAC (B)
9:00 - 10:30 a.m.	Plenary Session, Case BRAC (B)
10:30 - 10:45 a.m.	Coffee Break

### **Session 4: Selection and Training Implications for Organizational Effectiveness**

**Objective:** Discussion of how employee selection and training affects achievement of institutional goals. The case focuses on a situation in which agricultural engineers in a public sector rural development program in Guatemala attempt to introduce a new fertilizer use pattern. Inability to effectively communicate knowledge to local peasants leads to misuse of new technology and peasant loss of confidence in the program. Raises issues of who could best transfer knowledge to peasant farmers and training implications.

10:45 - 11:45 a.m.	Group Discussion, Case 4: Santiago Aguin (A) & (B)
11:45 - 1:15 p.m.	Plenary Session, Case 4: Santiago Aguin (A) & (B)
1:15 - 2:15 p.m.	Lunch

### Session 5: *Purpose and Use of Performance Appraisal*

**Objective:** Discussion of the multiple uses of performance appraisals: to provide feedback, set objectives and determine salary. Exploration of special issues and sensitivities involved in effective performance appraisal implementation. For example, using the same appraisal to provide feedback and determine salary level is, in most cases, counter-productive—knowledge of salary implications does not typically encourage sharing of concerns and realistic goal setting. Typical sensitivities involved in effective implementation include choice of place, who leads the discussion, setting up prior expectations, and agreeing on evaluation criteria in advance. The case describes the introduction of a new performance appraisal interview used to justify salary and bonuses in a U.S. foods company. Documents the reaction of managers involved in the upcoming performance appraisal. Highlights classic performance appraisal problems and sensitivities.

2:15 - 3:30 p.m.	Individual Study, Case 5: Colonial Foods
3:30 - 4:30 p.m.	Group Discussion, Case 5: Colonial Foods
4:30 - 6:00 p.m.	Plenary Session, Case 5: Colonial Foods

### Workshop Day 3

### Session 6: *Exercise in Design and Review of Evaluation Instruments*

**Objective:** Discussion of appraisal instrument design and implementation issues. Clarification of appraisal purpose, discussion of consistency among employees and congruence with institutional goals. Experience in design of appraisal instrument.

8:30 - 9:30 a.m.	Group Discussion, Design of Appraisal Instrument
9:30 - 11:00 a.m.	Plenary Session, Critique of Appraisal Instrument
11:00 - 11:15 a.m.	Coffee Break

### **Session 7: *Determining Compensation and Creating Performance Incentives***

**Objective:** Discussion of how compensation fits into the overall institutional human resource strategy. Focus on implicit trade-offs between compensation and employee qualifications, issues in design and review of incentive systems. Exploration of other employee rewards. The case presents a compensation strategy and incentive plan as part of a broader project development effort involving a startup microenterprise assistance program in Senegal. Implications for quality tradeoffs, equity of incentive plan, and fit with overall institutional strategy and objectives.

11:15 - 12:15 p.m.	Group Discussion, Case 6: Senegal (B)
12:15 - 1:15 p.m.	Lunch
1:15 - 2:45 p.m.	Plenary Session, Case 6: Senegal (B)

### **Session 8: *Participant Agenda Building and Course Wrap-up***

**Objective:** Obtain an integrated vision of the role of human resources management in the development of a resource institution. Lead participants in an institutional agenda-building exercise to establish participant agendas for future work in human resources management within their respective institutions.

2:45 - 3:45 p.m.	Individual Exercise in Personnel Management Agenda-Building
3:45 - 5:00 p.m.	Exercise: Sharing of Institutional Agendas
5:00 - 5:45 p.m.	Course Wrap-Up

### Section III

## HUMAN RESOURCES MANAGEMENT IN RESOURCE INSTITUTIONS WORKSHOP CASES AND ACCOMPANYING READINGS<sup>40</sup>

### Session 1: Introduction to Personnel Management

**Case:** ADEMI, contained in *Seeking Solutions*. In 1987, the Executive Director of the Association for the Development of Micro-Enterprises in the Dominican Republic (ADEMI) faced the task of developing the organization's strategy for the coming years. The returned Director identified the organization's growth and development objectives. The case examines strategies for personnel selection, training, performance evaluation, motivation, and compensation.

**Readings:** "Personnel Management in Resource Institutions: Themes and Issues," John Ickis, June 1990.

### Session 2: Identifying and Attracting Qualified Personnel

**Case:** United Parcel Service (UPS)(A). In 1987 UPS was forced to question its long-standing policies of on-the-job training and promotion from within. Increased competition in its traditional ground transport business revealed that UPS lagged in computerization and was in need of technical expertise that it could not simply cull from within its own ranks. The case examines the recruitment, hiring, and assimilation process and the extent to which the UPS culture and new employees were required to adapt.<sup>41</sup>

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<sup>40</sup>Many of the cases used in the seminar are contained in Charles Mann, Merilee Grindle and Parker Shipton's *Seeking Solutions*. (Kumarian Press, West Hartford, Conn., 1989). Textbook readings are contained in Mitchell Novit's *Essentials of Personnel Management*. Second Edition. (Prentice-Hall, Englewood Cliffs, New Jersey, 1986).

<sup>41</sup>In *Harvard Business School 1990-1991 Catalog of Teaching Materials*, 175.

**Readings:** "Selecting and Developing People," J.L. Heskett, Harvard Business School (HBS) Note.  
*Essentials of Personnel Management*, Mitchell S. Novit, Chapters 5 and 6. In a cursory but systematic fashion, Chapter 5 describes recruiting personnel, especially external personnel. The recruitment guidelines are appropriate for all organizations. The recruiting options most appropriate to SME promotional institutions are private employment agencies, newspaper ads, professional associations, colleges, and word of mouth recruitment. The chapter may be omitted from readings. Chapter 6 is an extensive treatment of the process of selection, and is a high priority reading. Its summary states:

There are five . . . elements in the selection process . . .  
 . [1] the determination of organizational goals and mission  
 . . . [2] job design (covering "tasks" . . . to be performed)  
 . . . [3] job success criteria . . . [4] job specifications, the  
 traits and characteristics desired . . . [and] selection  
 instruments . . . devices used for measuring elements [of]  
 the job specification.

The chapter examines different techniques for validating these elements. Different selection devices—tests, interviews, reference checks, physical examinations, are also discussed.

### **Session 3: Role of Training**

**Case:** BRAC (B), contained in *Seeking Solutions*. In January 1978, the Bangladesh Rural Advancement Committee (BRAC) was faced with a major strategic decision. It became necessary for BRAC to decide whether to diversify and expand its already overstretched activities. The case focuses on the need to prioritize organizational goals and to develop staff capacity through training. The case describes guidelines for program operations management and capacity building.

**Readings:** BRAC (A), contained in *Seeking Solutions*.  
 "Five Keys to Successful Training" by Dean Spitzer, *Training* (June 1986). The Spitzer article discusses problems characteristic of training programs and suggests ways of addressing these problems. Typically, problems are caused by the inability to conceptualize training and its relation to the purpose of the organization.  
*Essentials of Personnel Management*, Chapter 8. Chapter 8 examines training and, like Chapter 5, is fairly cursory and may be omitted.

**Session 4: Selection and Training Implications for Organizational Effectiveness**

**Case:** Santiago Aguin (A) and (B), INCAE case. A young extensionist in Guatemala attempts to persuade local peasants to change their fertilizer methods. His inability to effectively communicate ways of determining the correct amount of fertilizer to apply to crops and his useless written analyses of the peasants' soil lead the most enterprising of the peasants to lose confidence in the government's rural extension program and convince them of the wisdom of their old ways. The case focuses on issues of knowledge transference and has implications for organizational effectiveness and training.

**Readings:** None.

**Session 5: Purpose and Use of Performance Appraisal**

**Case:** Colonial Foods: Eugene Kirby and James Cranston. Together with assigned cases, this case describes the introduction of a performance appraisal system in a traditional consumer foods company. The case describes the various attitudes of a new boss who will be conducting the appraisal and the reactions of employees of long standing who are resistant to and uncomfortable with the change. The case focuses on the key issues of introducing, implementing, and designing a performance appraisal instrument in the workplace.

**Readings:** "An Uneasy Look at Performance Appraisal," McGregor, *Harvard Business Review*. This is a pioneer article (1957), which established the importance of evaluating a cooperative effort in which employees perform their own evaluations.  
 "Appraisal of What Performance?" Levinson, *Harvard Business Review*. The Levinson article (1975) proposes an alternative evaluation model with a greater focus on process and functions than on bold results.  
 "10 Steps to Objective Appraisals," Martin Friedman, *Personnel Journal* (June 1986). The article deals with steps to reduce subjectivity in evaluation.  
*Essentials of Personnel Management*, Chapter 10.

**Session 6: Exercise in Design and Review of Evaluation Instruments**

**Exercise:** Write a job description and design a performance evaluation instrument for your job. (Note that this should be done during the evening of Day 2 so that participants are ready to share appraisal instruments on Day 3.)

Readings: Same as Session 5.

### Session 7: Employee Motivation: Reward Systems

Case: Senegal (B),<sup>42</sup> in *Seeking Solutions*. Senegal (B), to be used with the background case Senegal (A), presents a compensation strategy and incentive plan as part of a broader subject development effort involving a startup microenterprise system in Senegal. Key issues focus on trade-offs between employee quality and low compensation targets, as well as on raising issues of the equity and institutional fit of the proposed incentive plan.

Readings: "Note on Reward Systems and the Role of Compensation," Walton, HBS.

"Note on Reward Systems," Beer and Spector, HBS. The note by Beer and Spector suggests ways to overcome the characteristic problems of employee evaluations: avoidance on the part of the supervisor and defensiveness on the part of the employee.

"One More Time: How Do You Motivate Employees?" Herzberg. *Essentials of Personnel Management*, Chapter 10. This chapter deals with systems of performance appraisals that are intended to serve two purposes—evaluation and employee development. These two are often incompatible. The systems are subject to various kinds of error and inconsistency. A large number of techniques are available, many with a better prognosis for success than others.

All of these materials present in essay form what we know about rewards—and emphasize that monetary rewards are only one of the motivating factors in personal performance—and quite often not the most powerful ones—but need to be sensitively handled if they are to achieve their ostensible purpose.

### Session 8: Course Wrap-Up

Exercise: Develop an action agenda of the needs and concrete steps that you believe your organization should take in human resources management.

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<sup>42</sup>In Mann, Charles, Merilee Grindle and Parker Shipton. *Seeking Solutions*, (West Hartford, Conn.: Kumarian Press, 1989).

#### Section IV

### NOTE TO TRAINERS ON HOW TO OBTAIN COPIES OF SEMINAR MATERIALS OR COPYRIGHT PERMISSION FOR SELECTED ARTICLES

#### Books used for course:

1. Mann, Charles, Merilee Grindle and Parker Shipton. *Seeking Solutions*, Kumarian Press, West Hartford, Conn., 1989. (Price: \$29.95)
2. Mann, Charles, Merilee Grindle and Parker Shipton. *Seeking Solutions - Case Leaders Guide*, Kumarian Press, West Hartford, Conn., 1990. (For Instructors only) (Price: \$27.50)

Both 1 and 2 above can be obtained by writing or calling:

Kumarian Press  
630 Oakwood Avenue, Suite 119  
West Hartford, Conn. 06110-1509  
Telephone: (205) 953-0214

3. Novit, Mitchell. *Essentials of Personnel Management*. Prentice-Hall Press, Englewood Cliffs, New Jersey, 1986 (Price: \$21.00)

All Harvard Business School Cases, Notes and Harvard Business Review reprints can be obtained by writing or calling:

The Harvard Business School  
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## **Appendix A**

# **HUMAN RESOURCES MANAGEMENT IN SME RESOURCE INSTITUTIONS**

### **Themes and Issues**

A reproduction of the overhead slides used in the Presentation made by John C. Ickis to participate in the ARIES Teaching Package Conference in Washington, D.C.

## PERSONNEL MANAGEMENT

"encompasses the design and administration of policies that attract and motivate competent people to perform tasks essential for achieving organizational purpose."

### PURPOSE

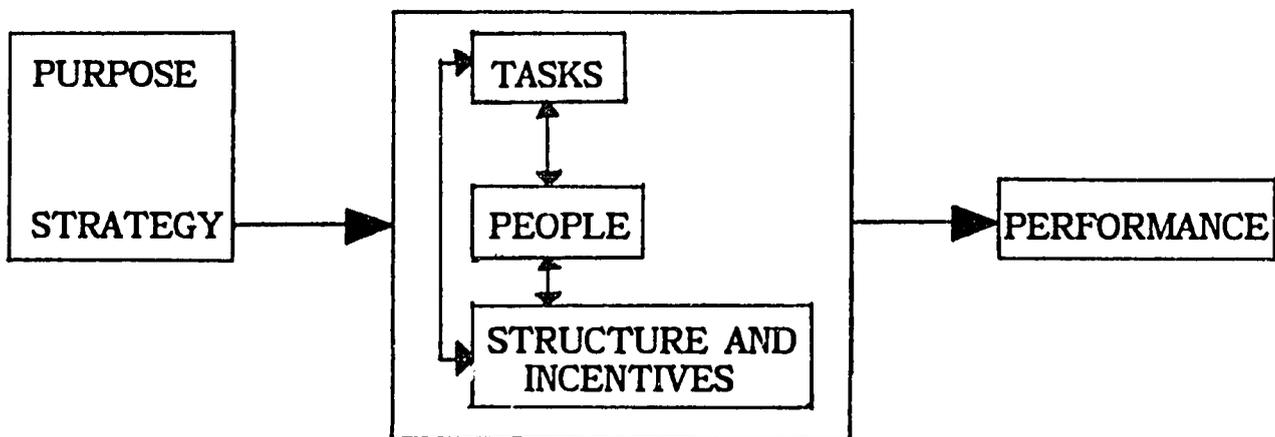
Mission and strategy that guide the organization

### COMMUNICATION

Web of structural relationships that provide information and enable coordination

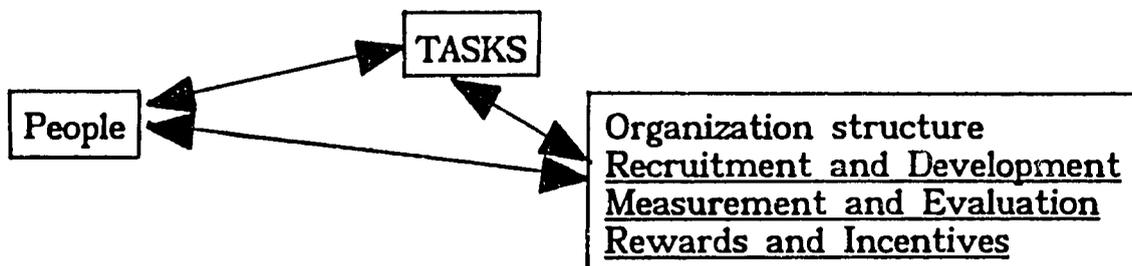
### WILLINGNESS TO COOPERATE

"Economy of incentives" that results in mutual benefit



### Needs

1. To attract and develop people with competence and motivation to perform required tasks.
2. To provide feedback on levels and quality of accomplishment.
3. To motivate high levels and quality of task performance.



SME Resource Institutions

International PVOs  
National and local PVOs  
Cooperatives  
Banks  
Government Agencies  
Business Associations



Disaster relief  
Social welfare



Community  
Development

Socially  
concerned;  
volunteers



ex-PCVs  
the idealistic

Recruit  
volunteers  
Job-intrinsic  
rewards



"you can't  
measure  
development"

welfare  
↑  
↓  
development  
↑  
↓  
income  
generation

volunteers  
↑  
↓  
idealists  
↑  
↓  
entrepreneurs

informal  
↑  
↓  
more formalized

Recruiting

Use of media versus use of contacts  
Problem of "referrals"  
Question of qualifications

Issue: Do we recruit MBAs and sensitize them to development, or do we train volunteers in business administration?

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<b>The Litmus Test</b>		
<b>for business graduates:</b>		
<b>T</b>	<b>F</b>	<b>Managing a rural health program is the same as managing a tire factory.</b>
<b>—</b>	<b>—</b>	
<b>for ex-volunteers:</b>		
<b>T</b>	<b>F</b>	<b>Businesses seek profit whereas PVOs seek development.</b>
<b>—</b>	<b>—</b>	

**KEY PROBLEM:**

**TRAINING:** What is an entrepreneur?  
- What kind?  
- Who? Where? etc.

**ISSUE:** What kind of training is of highest priority for field workers?  
  
a. "break even" type skills  
b. process consultation  
c. entrepreneurship—what is meant by entrepreneurial skills

**PERFORMANCE EVALUATION**

Should you measure field worker performance? Why? How?

- Objectives:            Motivation
- Negotiation of skills
- Monitoring goal achievement
- Feedback
- Career development

**COMPENSATION**

**Below Market**

- Keep away the uncommitted;  
the opportunist
- +Organizational cohesion  
"bond of shared hardship"
- Resource levels limited  
and uncertain

**Market**

- Low pay may drive away the  
competent
- Increased need for management  
skills

**INCENTIVES**

As carrots that  
provoke response

versus

**MOTIVATORS**

As sense of identification  
with mission and objectives