

# Chapter 8

## Human Resource Management in Indian Microfinance Institutions

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### **ABSTRACT**

*Over the years, microfinance has assumed a great importance all over the world. The reason behind the increasing importance of microfinance in poverty alleviation is considered a prime objective in all developing and underdeveloped countries. Traditionally, MFIs did not have a defined HR policy or structure, since the size of the organization was always very small. The last few years have seen an upswing in the size of the organizations and also in the margins generated by MFIs. The purpose of this chapter is to analyze the human resource management issues and challenges faced in microfinance industry in India.*

### **INTRODUCTION**

About 238 million people in India live below the poverty line with the per capita income of less than one dollar per day. Since independence, policy makers and practitioners have been trying to improve the lives of these poor and fight against poverty. This got reflected in the successive five-year plans, which had the objectives of “growth with equity” and “social justice”. The planners, however, realized that rapid growth did not bring about “trickle down” effect, particularly so in rural areas. This realization led to the restructuring of institutions and schematic lending to facilitate better accessibility of credit for the underprivileged. Thus, initiatives in this regard were taken by building an institutional framework through nationalization of banks and creation of regional rural banks. Hence, the tasks of microfinance are the promotion of greater financial inclusion and, in the process, improve the social and economic welfare of the poor

Microfinance is defined as an “attempt to improve access to small deposits and loans for the poor households neglected by banks” (Schreiner and Morduch, 2001). Morduch (1999) explains Microfinance Institutions as specialized financial institutions, consolidated under the banner of microfinance, sharing

DOI: 10.4018/978-1-6684-3873-2.ch008

the responsibility to work for financial inclusion. The main objectives of Microfinance Institutions are financial inclusion, poverty reduction, women empowerment and sustainability.

Over the period of time Indian Microfinance Sector has shown an impressive growth in terms of client coverage. Microfinance sector is a labor intensive sector. Human resource is the backbone of any MFIs. However, finding and retaining skilled manpower, to manage its growth is among the major challenges of the Indian Microfinance sector. There are several reasons for failure to attract competent personnel in microfinances sector by the MFIs. Firstly, different organizations such as banks, welfare organizations, NGOs and financial organizations have entered in this sector and have implemented diverse business models to run the show (Basargekar, 2013). Creating a leading MFI takes more than charging the right price and knowing how to design a financial offering. Secondly, indicators to measure the performance of human resources is varied, and it takes into consideration social performance along with profitability, which does not give clear picture of the industry to the bystander (Basargekar, 2013).

Workforce diversity encompasses race, gender, ethnic group, age, personality, cognitive style, tenure, organizational function and education of the employees in the organization. Understanding how HR responsibilities change during growth, communicating effectively with the expanding workforce, finding best people to join team, providing training opportunities, supporting staff performance and transferring institutional culture to establish work expectations and values are important in supporting a MFI's growth. Supporting diverse workforce in MFIs creates a powerful and sustainable tool for economic growth. According to Ikeayibe (2010) inappropriate Human Resource may serve as major havoc to the sustenance of MFIs and argued that staff of MFIs is fundamentally relevant towards the success or otherwise of MFIs.

This chapter presents a brief overview of the Microfinance Industry its Objectives, and current status of Microfinance Industry in India. The chapter also explores key issues and challenges faced by Microfinance Institutions (MFIs) in India. Finally, this chapter discusses Human Resource Management, and its present scenario in Indian MFIs.

## **A BRIEF OVERVIEW OF MICROFINANCE**

United Nations Millennium Goals state that by 2015 the number of people living in extreme poverty should be half of what it was in 2000 (World Bank, 2000). Over the time researchers have shown that those underprivileged are creditworthy (Ahmed et al., 2006; Coleman, 2006; Hiatt and Woodworth, 2006). Microfinance has established itself as an integral part of financial sector policies of emerging and developing countries in the past decade for underprivileged population. Microfinance spans a range of financial instruments including credit, savings, insurance, mortgages, and retirement plans, all of which are denominated in small amounts, making them accessible to individuals previously shut out from formal means of borrowing and saving. The majority of microfinance is aimed at the estimated 2.8 billion people who live on less than \$2 a day in the developing world.

Hubka, and Zaidi (2005) defined Microfinance as a credit methodology, which employs effective collateral substitute for short-term and working capital loans to micro-entrepreneurs. According to Otero (1999) Microfinance is “the provision of financial services to low-income poor and very poor self-employed people”. Robinson (2001) defines microfinance as ‘small-scale financial services—primarily credit and savings provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who

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