

# **Leading Growth in MFIs: Key Attributes and Characteristics**

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# Leading Growth in MFIs: Key Attributes and Characteristics

## I. Introduction

At Unitus, we select high-potential microfinance institutions (MFIs) that we think have the capacity for rapid growth using the Unitus Acceleration Model. We then form a 5-7 year partnership with them to help reach their maximum growth potential. Unitus currently has 10 partner MFIs in 4 countries: India, Kenya, Mexico, and Argentina. Our partners were reaching 233,000 clients when they partnered with Unitus and are now reaching over 750,000 clients, representing 95% annualized growth. In 2005 alone, Unitus partners as a group grew at eight times the industry average in terms of client numbers. In addition to client growth, our partners are growing their assets at 118% per year.

Potential partners are put through a stringent selection process to ensure that selected MFI partners can grow at such an accelerated rate. In developing this selection process, we used our experience to identify several criteria for selecting MFI partners. We have found “visionary leadership” to be one of the most important of these criteria. We describe this as leadership with a vision for growth and poverty alleviation, in which the management is skilled, committed and capable of overseeing growth. Over the past 5 years the Unitus team has learned a great deal about how to find “visionary leadership”, through identifying the characteristics, attributes and skills that are necessary to lead an MFI to sustainable growth. We want to share what we have learned to improve understanding of the vital role of leadership for growth as well



as to provide a framework for assessing leaders and making necessary changes to leadership.

We will share some of the tools Unitus uses to define and assess leadership. Unitus uses these tools in our everyday work to assess MFIs for partnership potential and help our MFI partners reach their highest growth potential. Since our inception five years ago we have analyzed more than 300 MFIs, and used what we have learned to strengthen and hone our tools to be as powerful as possible for determining an MFI's capacity for growth. However, we also rely heavily on the expertise and judgment of our staff and board in these and other capacity areas. We feel that even the best tools can only complement, not substitute for experience. It is difficult to include everything in devising a usable tool, but drawing on the variety of knowledge and experience our organization has access to enables us to offer specifically tailored advice and plans to each of our MFI partners.

## **II. Assessing Constraints to Growth**

We have developed a diagnostic tool that allows us to analyze an MFI's readiness for acceleration. We first tried to adapt existing assessment tools to our needs but did not find any which specifically focused on diagnosing the capacity of an MFI for growth. We thus worked with McKinsey to develop the Unitus Capacity Assessment Tool©. The Unitus Capacity Assessment Tool captures an MFI's growth-related strengths and weaknesses by identifying key capacity areas necessary for growth and determining whether, for a particular MFI, each area is: a) an immediate constraint to growth, b) a short-term constraint, c) a stable or perhaps a long-term constraint, or d) a strength that will fuel growth. This assessment, which we complete collaboratively with our MFI partners, is then used to create a roadmap for building the capacity to support 5 years of 100% annual growth. Just as no two MFIs are the same, no two capacity plans are the same. By identifying the specific constraints to growth of each individual MFI, we develop an individualized plan for growth that addresses those specific areas.



The Unitus Capacity Assessment Tool serves as a framework to identify the components necessary for accelerating growth. As we help an institution prepare to scale, we focus on three primary areas: first strengthening the institution, then broadening its geographic outreach and deepening market penetration. We've found that leadership, underlying systems, and methodologies must all be strong in order to strengthen the institution. To broaden its geographic area, leadership must develop an expansion plan and dedicate resources to accomplishing it. Finally, deepening market penetration requires retaining clients through appropriate products and services, deepening involvement with new clients through new products and services, and gaining new clients. In order to accomplish all three, the MFI must possess a deep understanding of its market as well as current and potential client needs, and ensure that its product development system is directly tied to this understanding.

Within each of these objectives, we identify "capacity areas", or categories of functional areas. Finally, we narrow down and specify "critical competencies" within each area that describe the specific position, system or function that drives growth. We ask specific questions to assess whether the MFI is meeting the critical competencies for growth, and if not, to identify why and devise plans for improvement.

Accelerated growth is hard. Often capacity strengths create growth rates so dynamic that eventually the MFI is expanded to a size in which those strengths again become constraints. In order to keep pace with this dynamic nature of operational capacity, we assess the MFI using the Unitus Capacity Assessment Tool every six months.

Below is an example of a completed Unitus Capacity Assessment report, showing a hypothetical MFI's color-coded score for each capacity area, as well as illustrating what we believe to be the drivers behind each area.

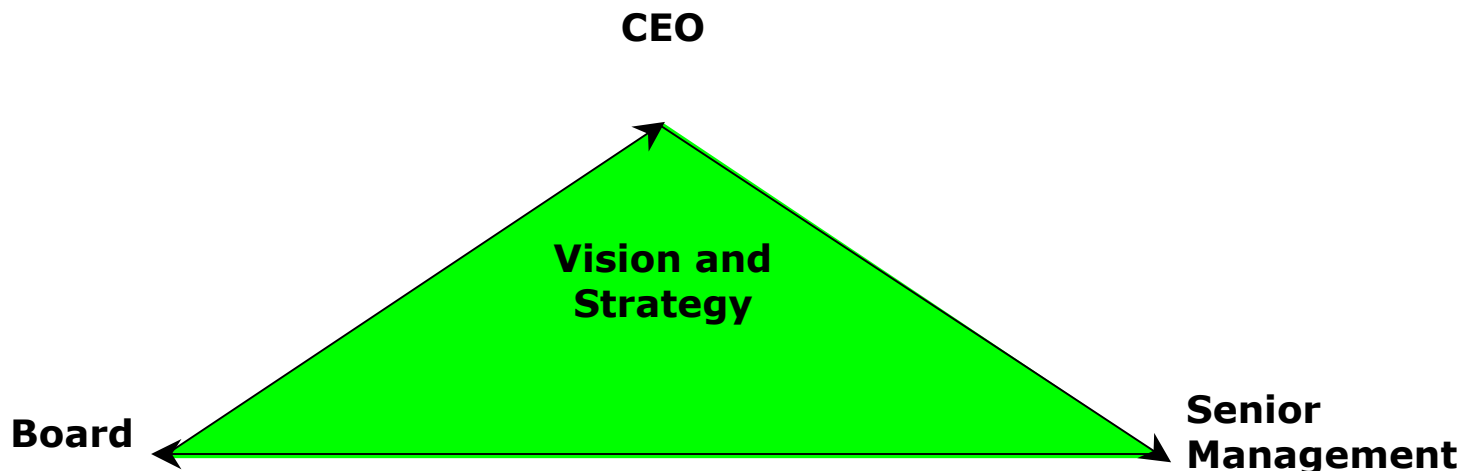


## Unitus Capacity Assessment Tool: Sample

Growth Framework	Capacity Area	Critical Competencies	Drivers
<b>Strengthening</b>	Corporate Governance	Board	Commitment, Qualifications, Development
		Legal Structure	Current, Future Structure
	Management	CEO	Leadership, Management, Development
		Senior Management	Leadership, Management, Development
	Management Systems	Mission/ Vision	Clarity, Sustainability, Poverty focus, Growth
		Culture	Transparency, Efficiency, Innovation, Execution, Respect, Profitability
		Strategy	Clarity, Feasibility, Wide application
		Strategic Planning	Content, Microfin, Implementation
		Organizational Structure	Efficiency, Decentralization, Preparation for Growth
		Human Resources Management	Recruiting, Development, Evaluation, Retention
		Performance Management	Goals, Analysis, Incorporation of Results
		Risk Management	Risk Assessment and Mitigation, Disaster Planning
	Service Methodology	Current Products	Product Attributes, Profitability, Strategic Importance
		Methodology	Documentation, Consistent Application, Innovation
		Logistics	Logistics Management, Security
	Financial Management	Efficiency	MFI Ratios, Processes Field and Main Office
		Financial Statement Analysis	Regularity, Data Quality
		Portfolio Quality Management	Systems to Prevent and Manage Delinquency
		Financial Management	Cash Flow Analysis, Financial Statements
		Profitability	Culture, Results
Internal Controls		Activities, Policies, Training	
Infrastructure	Accessing Capital Markets	Access to commercial funding, Commercial Rates	
	MIS/ Accounting	Capabilities, Simplicity, Access, Security, Support	
	Technology	Resources, Training	
<b>Broadening</b>	Expansion	Physical Infrastructure	Quality, Access, Security
		Systematic Expansion Planning	Systematic Branch Plan, Track record
		Expansion Team	Staff, Skills
<b>Deepening</b>	Market and Clients	Expansion Resources	Systematized Expansion Methodology
		Competitive Positioning	Ability to retain clients, Maintain profitability in competition
		New Client Recruiting	Market analysis, Refined client profile, Client Acquisition
		Marketing	Efficient, Economical, Consistent, Actionable
		Client Retention	Ability to Track, Improve Client Retention
Product Development	Market research, Pilot Testing, Integrating new Products		

This paper will focus on three of the first four critical competencies in the Unitus Capacity Assessment Tool: the Board, CEO, and Senior Management. In our experience, strong leadership is the most important driver of growth. Once strong leadership is in place, all other requirements for growth can be built or created. The Board, CEO, and Senior Management can thus be conceptualized as a strategic leadership triangle that lays the foundation for growth.

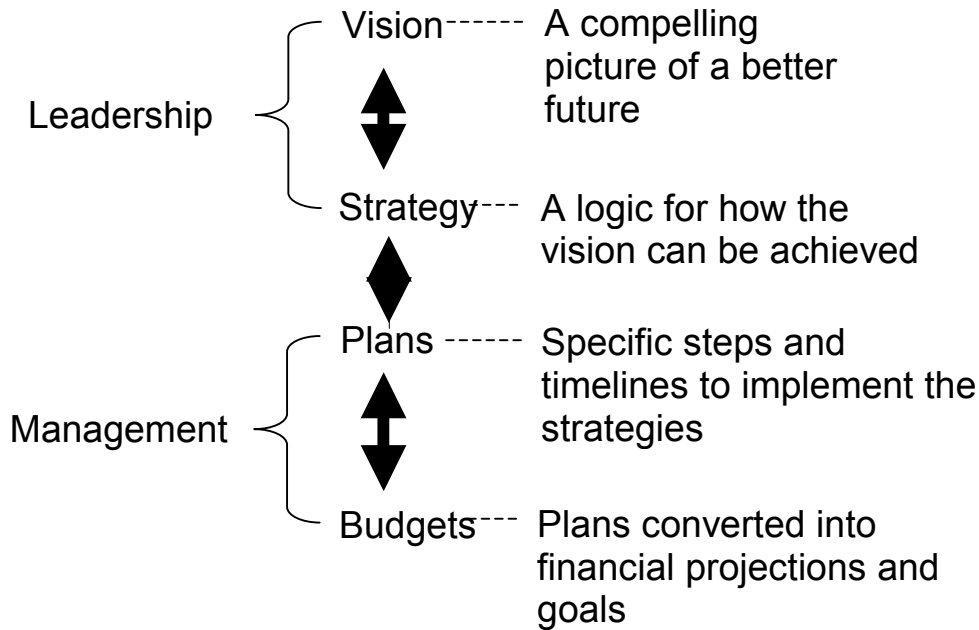
# Strategic Leadership Triangle



It is critical for an MFI to have capacity competencies in each of these areas. We have seen that a strong CEO with a weak board or a weak senior management team will not have the support he or she needs to implement a vision and strategy for growth. Likewise, a strong, visionary board cannot effectively drive growth if the CEO does not possess the necessary vision and leadership qualities. Once the three leadership positions have together developed a vision and strategy, the CEO will need a strong senior management team to which s/he can delegate responsibility with complete confidence.

### III. Critical Competency: CEO

In our experience, we have found that different drivers within each critical competency affect an MFI's capacity for growth. With regards to the CEO, leadership, management, and development are the drivers that determine whether a CEO is strong, problematic, or somewhere in between. These same drivers and criteria also apply to the senior management team. We differentiate between management and leadership as two separate, but complementary processes. The diagram below illustrates how we conceptualize this separation.



Adapted from: Kotter, John P. *Leading Change*. Harvard Business School Press, Boston, 1996.

In our view, leadership is more of a psychological exercise, centered on defining vision, articulating the strategy for achieving that vision, and motivating staff and others. In contrast, management is more operational, comprising of establishing plans and processes and measuring progress against these plans to realize the grand vision of the organization.

#### • **Visionary Leadership**

- We look for CEOs with a vision for a better future of the organization, a clear path set out to reach that vision, and a commitment to poverty alleviation through access to financial services (*See Bandhan Case Study below*).
- We've found the most effective CEOs show excellent leadership by being extremely energetic and highly committed and living the organization's values. Passion and integrity are also critical.
- A successful CEO clearly and consistently articulates that vision so that others can see where they are going and encourage them to get there, as well as to attract the resources to accomplish the vision and motivate people to action.

- We have learned that a CEO must have a deep understanding of the organization, knowing which levers to manipulate to achieve the desired results.
- Based on our experience, a CEO possessing superior financial analysis and leadership skills and capabilities, and one who is a social entrepreneur with comprehensive knowledge of the sector is able to stimulate growth.

### **Case Study: Bandhan, Kolkata, West Bengal, India**

The example of Unitus partner Bandhan illustrates the dramatic growth that can be achieved with a CEO driven by big goals and vision. CEO Chandra Shekhar Ghosh founded the MFI in November 2000. Mr. Ghosh had 16 years of experience working with a Bangladeshi MFI, but had the vision to break with his experience and implement the innovative ASA individual lending methodology. In part due to the strength of the CEO, Bandhan was able to secure financial support from numerous sources (e.g. ICICI Bank, Friends of Women’s World Banking, among others) and technical support from ASA, Bangladesh. As a result, Bandhan has experienced rapid expansion in the past five years.

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07**
Number of Active Borrowers	1,143	5,734	40,286	149,886	464,200
Annual Borrower Growth	772%	402%	602%	272%	210%

\*\* projected

In addition to visionary leadership, Bandhan has benefited from the CEO’s ability to set ambitious goals. In 2004 when Bandhan approached Unitus about forming a partnership, their goal was to reach 180,000 clients by 2009. By 2005, when the partnership was finalized, that goal had been extended to 1 million clients by 2009, and Bandhan has recently projected reaching an even larger 2.5 million clients by 2010! Mr. Ghosh credits Unitus for pushing him to “think big” when setting goals, but it has been his ambitious visions for growth coupled with factors mentioned above that have led the MFI to such success.

Finally, Bandhan’s growth has resulted from Mr. Ghosh’s ability to hire the right people and give his team enough freedom to grow the institution based on benchmarks reached through consensus. With average annual growth rates of over 400% over the past four years and over 290,000 clients, Bandhan is a great example of how the combination of vision, strong leadership, and bold goals can stimulate growth.

- **Management**

- A CEO with excellent management skills and experience effectively contributes to growth.
- An ability to delegate effectively and decentralize operations is critical in order to make the MFI as efficient and effective as possible. Our resident Microfinance Expert and Training Director summarized this important component of leadership.

It isn't easy and can't be done in a vacuum. It needs the right environment and the right personality to direct the activities of senior management and help them direct the activities of the next line down, while keeping a strategic vision towards accomplishing fast growth. It can't be done all by one person. Authority needs to be distributed well among many people and decision made close to the field.

*Howard Brady, Microfinance Expert and Training Director, Unitus*

- The CEO must be able to define and set goals, and build plans, budgets and other functional systems that will help in meeting these goals.
- Exceptional financial judgment is also necessary, with a keen understanding of the financial implications for all leadership decisions.
- We've found that effective CEOs focus equally on the social impact and profitability of the organization and constantly seek opportunities to improve impact. These CEOs are not only problem solvers, but also proactively anticipate problems and react with appropriate urgency.

- **Development**

- Our experience shows that a successful CEO is a guide for the organization and mentor for his or her staff, continually learning and working toward self-improvement; a "people-person" who uses diverse communication and management styles.
- The CEO must be able to motivate and encourage through personal commitment and passion and teach senior managers to do the

same with their teams, by mentoring, coaching and communicating effectively.

- Equally important for the CEO is setting high expectations for herself, her institution, and her staff. It has consistently been our experience that MFIs live up to the goals and milestones the leadership sets for them, but does not often rise far above them. For example, during a meeting with a group of MFI CEOs in the Philippines when asked how many clients per loan officer they expected to reach when operating at maximum efficiency, the answers varied widely, ranging from 200 clients per officer to around 500. When we asked each MFI how many clients each loan officer had at the time, on average, the answers were usually within 20 or 30 clients of the target number. Meaning, those CEOs who expected to have 250 clients per loan officer had at the time around 235, while those expecting to have around 500 clients per officer had around 480. Obviously other factors play into these results, but we found this to be consistent across every milestone—client numbers, size of the loan portfolio and others. In each case, actual numbers were close to goal or expected numbers.
- We have learned that it is critical for the CEO and staff to work to institutionalize many of the qualities and all of the systems they have developed.
- MFI growth stems from a CEO focused on growth both in the short- and long-terms, with the ability to see the benefit of spending time and money early to create sound and easily duplicated systems and procedures that can sustain and grow the organization in the long-term.
- A capable CEO understands how growth impacts the organizational structure and has the means to adjust it as necessary by inserting or removing layers of management and demonstrating clear job paths within the company.

- The MFI should rely on the CEO but not depend on her; should she decide to leave, transition should be easy on both the new incoming CEO and the institution itself. In the last 5 years, there have been 6 CEO changes in our 10 Unitus partners. We have learned that an MFI can lose up to a year of growth with each change, so managing transitions is crucial.

At the opposite end of the spectrum, we have seen CEOs with strong technical competency, but lacking vision, energy, and ambition. These CEOs often exhibit low leadership and management skills, therefore preventing the MFI from growing at the rates expected by Unitus. Weak CEOs fail to deliver consistent impact or performance, delay decision making, and are often reluctant to change the status quo.

Based on these guidelines, the Unitus Capacity Assessment Tool is used to assess the CEO’s potential impact on growth. The following are samples of the actual questions we use to assess whether we feel the CEO is a constraint to the MFI’s growth.

#### 4.1 **CEO**

##### 4.1.1 CEO Leadership

Can the CEO articulate his/her vision and a path to growth, and achieve it?
Where does the CEO see his organization in 10 years?
Does the CEO think strategically about his priorities?
Is the CEO a curious learner?
Can the CEO describe situations in which he was wrong and has he learned from humbling experiences?
Does the CEO exhibit commitment to the MFI and its mission?

##### 4.1.2 CEO Management

List CEO qualifications, education, years with MFI
List examples of financial judgment
List examples of strategic thinking and problem solving
List examples of entrepreneurial spirit



Does the CEO exhibit a deep understanding of the microfinance industry?
Does the CEO exhibit an understanding of the MFI's target market?
List experience in organizational management
What types of goals does the CEO set for the organization? Are they ambitious or overly conservative?
How does the CEO spend his/her time?
Has the CEO ever fired someone and can he deal with nonperformers?
Does the CEO protect like-minded people?

#### 4.12 CEO Development

How prepared is the MFI to function w/o CEO?
Does the MFI have a plan for leadership succession?
Does the MFI have a plan for emergency leadership?
If CEO were to leave, would the MFI be drastically hurt?
Is CEO developing enough to facilitate future growth?
Is CEO actively developing senior management?

We use the above questions to guide our investigations when we are on the ground performing due diligence. After conducting the above assessments of the CEO and observing him perform his duties at the MFI, we use our findings to score the CEO according to the Unitus Capacity Assessment Tool (see scoring guide on opposite page).

Although we stress that all three components (board, CEO and senior management) must be strong to ensure that an MFI's leadership is capable of growing the MFI, here at Unitus we do weigh the CEO more heavily in the equation. Through our experience we have learned that a weak CEO is probably the most difficult growth constraint to overcome. If an MFI had a weak board or needed better senior managers, Unitus could still consider a partnership to help build those areas; it would be extremely unlikely, however, for us to partner with an MFI who did not have a strong, visionary CEO.

Score	<b>CEO: Leadership, Management, Development</b>
<b>Red: Immediate Constraint to Growth</b>	<b>Low Leadership</b> and energy level; limited attention to MFI mission. <b>Low Management Skills:</b> Limited experience in financial, organizational management, few relevant capabilities from other fields; limited entrepreneurial qualities; limited financial skills, difficulty considering financial implications of decisions. Fails to deliver consistent impact/ performance; delays decision making; reluctant to change status quo; mandates rather than leads change. Fails to show respect for others consistently, may be openly judgmental or critical; has difficulty influencing without using power, limited charisma or influence; limited curiosity about new ideas. <b>Low Development:</b> Very strong dependence on CEO/ED; organization would cease to exist without his/her presence. No active plans to develop senior management.
<b>Yellow: Constraint to Short Term Growth</b>	<b>Moderate Leadership:</b> good energy level; visible commitment to mission. <b>Moderate Management Skills:</b> Some relevant experience in MFI management and financial management; demonstrated social entrepreneur qualities; some local recognition in the microfinance community. Constantly delivers satisfactory impact given resources; promptly addresses issues; understands implications of change on people. Draws appropriate conclusions after studying all the facts; understands basic financial concepts and drives for financial impact of major decisions. Earns respect, takes time to build relationships; is able to influence and build support; accepts learning and development opportunities that arise. <b>Moderate Development:</b> High dependence on CEO/ED; organization would continue to exist without his/her presence, but likely in a very different form.
<b>White: Possible Constraint to Long Term Growth</b>	<b>Good Leadership:</b> Inspiringly energetic; shows constant, visible commitment to organization and vision; excites others around vision. Mission is challenged, drives actual growth. <b>Good Management Skills:</b> Significant experience in MFI and financial management, some national recognition as a leader. Has sound financial judgment; consistently considers financial implications of decisions. Focuses on ways to better use existing resources to deliver highest impact possible; rapidly moves from decisions to action. Is respected and sought out by others for advice; uses multiple approaches to get buy-in, appreciates the impact of his/her words or actions; seeks new learning and development opportunities. <b>Good Development:</b> Limited dependence on CEO/ED; Active efforts to develop second line of management/ CEO. Members of management team could potentially lead the MFI absent CEO. Organization would continue in similar way without his/her presence but areas such as fund-raising or operations would likely suffer significantly during transition period.
<b>Green: Not a Constraint To Growth</b>	<b>Excellent Leadership :</b> Contagiously energetic and highly committed; lives the organization's vision; compellingly articulates path to achieving vision that enables others to see where they are going. <b>Excellent Management Skills:</b> Highly experienced in MFI/ Financial management; Superior financial analysis and leadership capabilities; exceptional evidence of social entrepreneur-like qualities; possesses a comprehensive and deep understanding of the sector; recognized in national and international MF community. Has exceptional financial judgment; has keen, almost intuitive sense for financial implications of decisions. Guides organization to succeed in social impact, profitability; constantly finds opportunities to improve impact; anticipates possible problems; has appropriate urgency re: upcoming challenges. Viewed as outstanding "people person"; uses diverse communication styles; continually self-aware, actively works to better self; outstanding track record of learning. <b>Excellent Development:</b> Reliance but not dependence on CEO/ED; smooth transition to new leader could be expected.

## **IV. Critical Competency: Board**

For the critical competency “Board”, the critical drivers are commitment, qualifications and development.

- **Commitment**

- A board which does not constrain growth, and may even accelerate it, is fully committed and dedicated to the MFI, with each member holding a financial stake.
- Together with the CEO and senior management, an effective board helps determine the capital needs of the MFI in the immediate and long term and devise a plan for obtaining it.
- Passion and integrity are also critical at the board level. In our experience there has often been at least one “visionary” member of the board who will lead the charge for growth. Without this person or persons the board may not have the necessary commitment to growth.
- A strong board is willing and able to hold management, and particularly the CEO, accountable for meeting specific growth and other goals. The board develops the mission and vision with the CEO and then empowers the CEO to lead the organization in accordance with this vision.
- In our experience, we have found that many organizations are started by a visionary social entrepreneur who surrounds him- or herself with a supportive board which is focused on starting and growing the institution rather than oversight. As the MFI grows, takes on institutional investors and prepares for transformation, institutional oversight becomes critical for long-term success. The earlier oversight practices are institutionalized, the easier growth will be.

- **Qualifications**

- We have found boards work best when composed of members from a broad variety of industries and functional positions, with at least

some of them having expertise in the area of microfinance, as well as high-growth companies and financial industries.

- We have learned that the board as a whole should have enough qualifications and experience to have good judgment, and come from sufficiently diverse backgrounds to provide rich perspective and problem-solving capabilities.
- We look for boards with high-profile members with access to the national government as well as the local and international microfinance world and banking sectors. Given the environment in which most MFIs operate, these business connections are vital and aid in everything from obtaining licenses and recruiting senior managers to securing financing (*See case study on Unitus partner Pro Mujer Mexico below*).

#### **Case Study: Pro Mujer Mexico, Tula, Mexico**

The example of Unitus partner Pro Mujer Mexico, founded in April 2002, illustrates the expansion that can be achieved with a dedicated Board. Pro Mujer Mexico's Board is comprised of individuals with diverse professional experience, including members from the fields of microfinance, capital markets, finance, politics, strategy consulting and law. The Board is primarily locally-based, facilitating a close relationship between Pro Mujer Mexico's CEO Javier Vargas and its Board Chair Maria O'Keefe. As a result of this close relationship, the Board is able to work with the CEO to address problems quickly and efficiently. When issues have arisen, the Board has taken ownership of finding solutions to problems and has sought to resolve issues in a transparent and timely matter. The Board also has created a number of subcommittees, including a finance and MIS committee, to meet operational needs.

The experience and professional nature of the Board have enabled Pro Mujer Mexico to gain support from not only the state and federal government in Mexico, but also international corporations like Banamex/Citibank and JPMorgan Chase. In part because of the strength of its board, PMM has achieved growth rates over 4 times the industry average.

#### **• Development**

- Superior development is indicated by an appropriately sized board for maximum effectiveness.
- Effective boards have a rigorous nomination process in place, with board selection and rotation showing an improved ability to analyze, govern and secure funding for the MFI.

- Dividing the Board into Committees allows board members to focus on particular areas and leads to more in-depth rigor, analysis, and oversight.
- Boards operate most productively when a regular meeting schedule is established and consistent attendance is required.

Conversely, a board which is an immediate constraint to growth has a low commitment to the organization’s success and takes little active interest in its operations. These types of boards are often comprised of friends and family of the CEO or funders. A poor board does not scrutinize budgets or audits regularly nor well, and often does not set performance targets and hold the CEO accountable for meeting them. Such a board does not operate according to formal procedures and our experience suggests that individual board functions are often unclear. Ineffective boards have little or no history of active recruiting and development of board members to address skill gaps and are often comprised of members with little or no relevant experience. Boards that fall in between these two extremes range from a stable factor to a constraint to short-term growth.

Below are some of the questions Unitus asks to evaluate the Board critical competencies via the Unitus Capacity Assessment Tool.

### 3.1 **Board**

#### 3.1.1 Board Commitment

Is each Board member financially committed to the Board? What is the degree of financial ownership?
Is the Board accountable for the mission and vision (formal and informal)?
Is the Board financially and socially committed to the MFI’s success?
Does the board receive compensation?

#### 3.1.2 Board Qualifications

List members, profession, years in profession
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To what degree does the board hold CEO accountable for financial performance of the MFI? What is the process?
To what degree does the board hold CEO accountable for social performance of the MFI? What is the process?
To what degree does the board prepare for CEO leadership succession?
If transformed, how will board be impacted?
Has the board served a past problem-solving role or helped with strategic development?
What types of connections do the board members bring?

### 3.13 Board Development

Are there term limits for board members?
To what degree does the board address its own development/capacity needs?
What are the requirements for new board members re: qualifications, commitments, etc?
Is MFI able to offer attractive role for board members?
What is the board structure? Are there different committees? Are there officers? If so, what is their role?
What is the board's role in financing/fundraising?

Score	Board: Commitment, Qualifications, Development
<b>Red: Immediate Constraint to Growth</b>	<b>Low Commitment</b> to organization's success. <b>Low Qualifications:</b> Membership has little or no relevant experience; Board does not scrutinize budgets or audits regularly or well, does not set performance targets and hold CEO accountable or does not operate according to formal procedures; executive, treasury, and board functions unclear. Board does not meet fundraising responsibilities to MFI. <b>Low Development:</b> Little or no efforts to analyze board composition. Little or no history of active recruiting/development of board members to address skill gaps. No Board term limits.
<b>Yellow: Constraint to Short Term Growth</b>	<b>Moderate Commitment</b> to organization's success, vision and mission; <b>Moderate Qualifications:</b> Some relevant diversity in fields of practice; Roles of legal board, advisory board and management are clear; board functions according to by-laws, reviews budgets, and occasionally sets organizational direction and targets, but does not regularly review CEO performance, monitor potential conflicts. Regular, purposeful meetings are held. Board recognizes fundraising responsibilities to MFI, but fundraising efforts are led by one or two members. <b>Moderate Development:</b> Board acknowledges gaps in board composition, but has done little to recruit/ develop group composition to address skill gaps.
<b>White: Possible Constraint to Long Term Growth</b>	<b>Adequate Commitment</b> to organization's success, vision and mission; <b>Adequate Qualifications:</b> membership includes relevant expertise; Roles of legal board, advisory board, and managers are clear and function well; board reviews budgets, audits, IRS and state filings; size of board set for maximum effectiveness. Board co-defines performance targets. Many members embrace fundraising as one of the board's core roles and responsibilities; core group of board members consistently participate in fundraising; realistic and appropriate board fundraising goals and plans exist. <b>Adequate Development:</b> rigorous nomination process; purposeful selection/ rotation of board members to enhance ability to analyze and govern the MFI.
<b>Green: Not a Constraint To Growth</b>	<b>Superior Commitment</b> : Board is fully dedicated. Each member has financial stake in the success of the MFI. <b>Superior Qualifications:</b> Membership with broad variety of fields of practice and expertise; includes functional and program content-related expertise, as well as high-profile members with access to banking sector, MF world, and national government. Legal board, advisory board and managers work well together from clear roles; board fully understands and fulfils fiduciary duties; Majority of members embrace fundraising as a core board role and responsibility; realistic and appropriate fundraising goals and plans are in place; board is actively fundraising. <b>Superior Development:</b> size of board set for maximum effectiveness with rigorous nomination process; board selection and rotation has improved ability to analyze, govern, and secure funding for MFI.

## V. Critical Competency: Senior Management

In our experience, the critical drivers, knowledge and skills for a senior management team are the same as those for an MFI CEO, with an added focus on competency in each specific functional area. A strong senior management team is passionate and highly committed to the MFI and its

mission and vision. As with the CEO and Board, the senior management team must set bold goals and operate strategically to achieve these goals. Unitus partner SKS Microfinance is one excellent example of how visionary leadership at the senior management level can stimulate growth. SKS's senior management team has been on the front line, working with banks, the Reserve Bank of India, and others to unlock tens of millions of US\$ in funding. This team also had the vision to transform SKS into a non-bank finance company, enabling SKS to grow from 10,000 clients at the time of Unitus partnership in 2003 to over 225,000 clients just three years later.

**Case Study: Ujjivan, Bangalore, India**

The example of Unitus partner Ujjivan demonstrates how building a strong senior management team can pave the way for future MFI growth. Upon its inception in 2005, Samit Ghosh, the CEO of Ujjivan, sought to recruit exceptional people to form his finance, operations and systems teams. Mr. Ghosh brought professionals with him from the retail banking industry, including an operations manager from a retail bank with over 10 years of experience. He also hired a leading recruitment firm to help him identify new candidates with demonstrated experience and diverse backgrounds. Professional networking and individual knowledge also aided in recruiting top quality senior management.

As a result of the rigorous hiring process, Ujjivan's senior management team exhibits depth and a wide variety of experience. The team comprises individuals with experience from across commercial banking, microfinance, development, and technology sectors, with strong connections to the Indian business and government communities. Every member of the team is committed to the vision and goals of the MFI as a whole. The high-quality senior management team has already enabled Ujjivan to reach 10,000 customers in the first 12 months of operations, one of the fastest acquisitions of customers by an MFI in India. Ujjivan plans to add another 15,000 customers in the next 6 months. While young, Ujjivan's professional staff will undoubtedly enable the MFI to continue its rapid growth and achieve this goal.

In addition to vision, we've found senior managers to be the most successful when they can work autonomously while maintaining valuable cross-team communication. Effective team-building is an important component of management at the senior level. MFIs are most successful when senior management forms a cohesive team whose skills complement each other and those of the CEO. When this is achieved, the CEO is able to have full confidence in senior management's problem-solving and strategic abilities. When MFIs start growing at the rate Unitus seeks, there inevitably will be problems. Staff's ability to diagnose, assess and solve those problems as

they arise determines whether that growth will be sustainable in the long-term.

In addition to evaluating senior management in their individual functional areas, we use the Unitus Capacity Assessment Tool to assess the overall quality of senior management. What follows are samples of the actual questions we use to evaluate whether senior management is a capacity competency.

## 5.1 **Senior Management**

### 5.1.2 Senior Management Leadership

Can the SM individually articulate the mission and vision of the MFI?
Do the SMs exhibit commitment to the MFI and the vision?

### 5.1.3 Senior Management – Management

List SM qualifications, education, years with MFI
Evaluate financial judgment/other functional ability
Examine previous examples of strategic thinking
Does the SM have an entrepreneurial spirit?
Is CEO developing enough to facilitate future growth?
Is CEO actively developing senior management?

### 5.1.4 Senior Management Development

How are SMs recruited/developed?
How are middle managers involved?
How prepared is the MFI to function w/o each member of the SM team?
Does the MFI have a plan for succession leadership?
Does the MFI have a plan for emergency leadership?
To what extent are SMs actively developed?
To what extent are middle managers actively developed?
If any of the SMs were to leave, would the MFI be drastically hurt?
Is management being developed enough to facilitate future growth?

## **VI. Capacity Building**

This explanation is meant to illustrate some of the factors and qualities Unitus uses to determine the strength of an MFI's leadership team. The Unitus Capacity Assessment Tool is used as a whole not only to identify weaknesses, but also to analyze why those areas are deficient and make suggestions for how to turn those weaknesses into strengths. Unitus Capacity Assessment Tool thus serves as a mechanism to improve the MFI and provide the opportunity for growth. While we look for the items listed under the "not a constraint to growth" categories when assessing an MFI for partnership potential, we realize that not all qualities will necessarily be present in all capacity areas.

Once we have completed the Capacity Assessment Tool, we use that as a basis, together with our MFI partners, to create a Capacity Building Plan for the next six months. The Capacity Building Plan lays out concrete steps to take to turn capacity areas deemed "constraint to growth" into "capacity competencies". So for a leader assessing his or her own MFI, realizing the leadership team is lacking in some critical areas is not a cause for despair, but an opportunity to set out a clear path for filling in the gaps. Unitus' goal is to help MFIs strengthen their internal systems in order to more effectively and efficiently lead and manage rapid growth. Once we have identified growth constraints, we work together to evaluate viable solutions. We then link the MFI to the tools and experts they can utilize to implement the chosen solutions.

Each Capacity Building Plan is different depending on the MFI and the weaknesses identified by the Unitus Capacity Assessment Tool. For example, in the past when an assessment determined that the MFI board may hinder growth, the capacity building plan focused on improving it. To accomplish this, we encouraged the person in charge of improving the MFI leadership team to actively recruit new board members with skills and



experience that enhanced and diversified the existing board. The team instituted new board regulations for nominations, rotation, selection and other areas which allowed the board to best analyze, govern and secure funding for the MFI. For the other areas of the leadership team, the team recruited individuals displaying the qualities described above to comprise a strong and cohesive senior management team.

## **VII. Conclusion**

We use the tools described above and others to attempt to measure important qualities that cannot be taught: passion, integrity, vision, and energy. The tools we've shared here give a glimpse into leadership, the place where Unitus begins and ends its assessment of a potential MFI partner for growth. We hope this brief description provides insight to other institutions attempting to stimulate MFI growth.

If the strategic leadership triangle is robust, we have found that most of the other competencies will follow. Without strong, visionary leadership, however, it is almost impossible for an MFI to achieve rapid, sustainable growth. Building or strengthening the strategic leadership triangle can prepare organizations for accelerated growth, and this in turn will ultimately help to close the supply/demand gap for the millions of households who currently lack access to financial services.