

# **CURRENT SITUATION OF HUMAN CAPITAL AND ORGANIZATION DEVELOPMENT IN THE IMPACT INVESTMENT INDUSTRY: PRELIMINARY INSIGHTS**

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## **Executive Summary**

Impact investment — the pursuit of social and/or environmental returns as well as financial returns — is rapidly gaining global importance. Development challenges such as poverty alleviation, sustainable development self-sufficiency and social justice can be addressed through impact investment work. The double- and triple-bottom line organizations in this field seek top tier human capital with broad knowledge and experience, but face constraints in hiring and retaining talent. The effective use of impact investment funds requires two things: (1) human capital to develop new ideas and paradigms; and (2) new ways of working together that create a meaningful workplace culture and an effective vehicle for deploying financial capital.

In late 2010, the One Planet team identified human capital and organization growth as key factors shaping and constraining industry evolution. Under the auspices of Dr. K.C. Soares, a pilot research project was developed around these topics. We wanted to understand current baseline practices among industry leaders and gain a clearer understanding of how people and workplace culture are influencing impact investment. Baseline clarity is a first step toward developing benchmarks that will contribute to healthy growth of multiple bottom line enterprises. These scalable impact investment firms will encourage increased flows of capital into ventures that benefit “the other 99%” as well as the firm’s investors.

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Our self-funded research included interviews with fourteen people in nine organizations of sizes ranging from about five to over 50 persons, and a thematic range including microfinance, social investing, VC, and an internationally respected specialty rating agency. Given limited resources, we focused on current human capital and organization development practices within participating organizations and the extent to which these are an integral part of workplace culture. Can we identify practices that increase workplace satisfaction and productivity? What kinds of initial conclusions can we draw and how might these shape industry dialogue and future research initiatives?

We began with the basic premise that impact investment requires each workplace to attract and integrate persons from diverse professions and backgrounds. In other words, social sector and development expertise is needed alongside traditional finance and investment skills. Additionally, we believe that a healthy workplace embracing change and innovation will incrementally, and possibly exponentially, improve and consolidate performance quality. Interview questions touched on structure, performance evaluation, hiring practices, communications, governance and the role of creativity and innovation in work processes and procedures.

Given our small sample size, research findings must be considered as preliminary. However, there was a recognized and articulated need to devote more time and effort to human capital and professional development, as well as to organizational culture as a means of ensuring sustainable growth. The nine discussion points below emerged from Dr. Soares' analysis. The complete White Paper, which discusses these topics in greater detail, can be found on the TMITM blogsite (White Paper).

1. The *sui generis* vocabularies and approaches of financial and social sector professionals create potential barriers of mutual understanding. People are hired from these different professional and must work together productively even though each may think the others are speaking different languages. Organizations recognize the "two different worlds" phenomenon but are unprepared to handle the specific human and organization issues that arise as a result.

2. Workplace culture is rightly viewed as important. The needs for mutual understanding, shared values, and collaborative approaches to work were often mentioned. Nevertheless, few organizations have specific plans or programs designed to create and maintain this type of environment. In the absence of a formal workplace culture, how people develop professionally and how they foster, learn of and share innovations in their profession are constrained.

3. Growth requires increased staff and integrating new hires into the workplace requires formal, or at least informal, on-boarding. Little, if any, formal on-boarding is planned and conducted, which worsens the problem of staff with different subject matter expertise and vocabularies. Conscious, purposeful on-boarding would foster better alignment between professed organization goals versus actual work place approaches and methods, as well as increased employee satisfaction.

4. Training and development programs need to be designed and implemented. While placing a high value on this, organizations recognized that neither appropriate time nor funding was being made available for these critical programs. Additionally, there was limited understanding of the distinctions between training (activity specific) and professional development (individual specific) programs. Sporadic and opportunistic training was thus offered, but little or no management/executive development programs. Career development, broadly defined to cover all staff, was not mentioned at all.

5. The need to harmonize across various generations of professionals in the modern workplace is well-known. None of the participating organizations had any specific tools or programs to leverage these generational differences. Although succession planning might appear as a Board level concern, the organizations were constrained in terms of “preparing for the future”, particularly with respect to human capital. Multi-year plans to increase financial capital through donations or investment were the norm, however, rather than the exception.

6. More attention needs to be given to the correlation between articulated organization values on the one hand (i.e., reduce poverty at the base of the pyramid) and objectives that directly impact the workplace. Most organizations believed that having a mission statement was sufficient to make their values clear, yet individuals are given little guidance in transforming a high-level mission into a practical plan of action. Clearly stated values would enhance the organization’s ability to attract experienced industry professionals who will fit well with existing staff and culture. An associated issue, raised by most of those interviewed, was their inability to offer competitive salaries commensurate with the knowledge and experience being recruited.

7. All interviewees commented that “people are the organization’s greatest asset”. This sentiment did not translate into meaningful actions that developed human capital within the organization. The organization’s systems, policies, procedures and values should work in synchronicity to provide meaningful human capital and organization development within the organization. When they do so, growth and expansion are more readily attained.

8. When operating funds are limited, one of the ways to attract and retain qualified staff is by offering well developed career plans and programs. Recognizing and nurturing non-financial value in this way lays the groundwork for a growing talent pool at all levels within the organization.

9. Variable compensation schemes were suggested as a means of addressing the issue of attracting and retaining experienced talent. Specifically, compensation structures that align the interests of staff, management, Boards and investors would contribute to the scalability and sustainability of these organizations. Additional research on performance linked compensation and reward systems is needed. The recent GIIIN case studies on aligning compensation and impact investment goals is a first step in this direction (Case Study: Impact Based Incentive Structures).

The results of this pilot research provide insights for thoughtful reflection and future action. There was widespread recognition that more needs to be accomplished vis-à-vis the organization's human capital and its own abilities to develop and grow sustainably. More creative and innovative thinking could be used to address these challenges. Financial performance is often discussed, but enhanced human and organizational performance are also critical for healthy growth of the impact investment industry.

## I. Introduction

The One Planet Investment initiative was originally conceived to bring business model innovation and a focus on operational efficiency and excellence to the process of financial intermediation for impact investment. This important concept — how money moves from investors into ventures with social impact (VSIs) — is often overlooked in the excitement of creating a multiple bottom-line investment revolution. ***One Planet understands that true poverty alleviation requires more than access to finance — it requires access to life: creating sustainable ventures that contribute to the socio-economic well-being of the 99%.***

The people and institutions involved in leading social impact investment change efforts are fundamental to advancing the field and the impact with the intended beneficiaries. Lending to a microfinance institution (MFI) is not the same as financing an early stage social venture, even if both organizations serve the same target market. Figuring out appropriate structures and instruments for sustainable social investment will require the combined efforts of many experienced and committed individuals. This pilot research explores the human

talent pool of selected organizations that invest in or are related to, the social impact investment field; the capacity of these organizations to attract and retain talent; and, some of the challenges that they are encountering. **The goal is to begin to understand the intersection of financial capital and human capital as it applies to impact investment.**

This preliminary research paper explores current human capital/talent management processes and issues of multiple bottom-line, mostly investment, organizations. The struggle to create knowledge based firms is particularly challenging when an organization is trying to bring together the “communities of practice” concept across microfinance and enterprise development networks around the world; build internal team collaboration; and, create a workplace that merges development-based social sector professionals with asset/fund manager-based investment professionals. We hope that our research will reinforce, among others, the need to develop people as well as build an investor base. **Defining “best practices” for impact investment is far more complex than adapting current venture capital or private equity practice – it involves a conscious effort to identify values and then apply these values to impact investment in a practical manner.**

One distinguishing feature of the knowledge-based firm is that people are typically the firm’s most valuable asset, as the firm’s value is mainly generated through the application of its employees’ skills and knowledge. Unlike physical assets, individuals can exert discretion as to when and how they want to apply their skills and knowledge. R. Paul Herman of HIP Investor notes that many firms claim that people are their most valuable asset, but few reflect this belief in their operating practices. If human capital is reduced to an expense item, developing and retaining talent can become an afterthought. One Planet believes that this initial research piece will begin to provide some insight into how organizations are actually dealing with their own talent; how these dynamics relate to the market place; and ways that they are encouraging human capital and organization development in their operations. **We hope to expand this research within the US and to other regions of the world, funding and collaborative partnerships permitting.**

The following paper explores some of the human capital issues facing microfinance and impact investment, for example – hiring practices, training and development of the next generation of impact investment managers, and what is being done to ensure a good supply of talent. The research looks at practices within microfinance and mainstream investment, seeking areas of

convergence and opportunities to help meld convergence into something unique and appropriate to multiple bottom line investing. ***The research recognizes that people who find meaning in their workplace are more satisfied, committed, and productive.*** We hope this work will stimulate the discovery of new ways to add value to human capital and firm performance.

We thank the executives and staff of the organizations that participated in this initial phase of the research and extend our sincere gratitude. We also hope that the results, while incipient, shed new light on ways of working together in more meaningful manners. Funding for this research was provided by One Planet Ventures and Smith Soares Associates. Primary research and analysis was conducted by K. C. Soares, Ph.D., of Smith Soares Associates, with design input and commentary from Lauren Burnhill of One Planet Ventures and from advisors to the One Planet Investment initiative.

## **II. Hypothesis**

We launched our research from the assumption that fostering human capital improvement and development through specific hiring and capacity building practices leads to greater satisfaction, operational excellence, and a work environment and culture that enhances human and organization development as well as profits/revenues.

Key issues explored in this pilot study include identifying current hiring and on-boarding practices, methods of cultivating human capital, and organization development initiatives as practiced and implemented at firms. ***We hope that the results will foster a dialogue within and across multiple bottom line organizations around developing successful strategies for managing their human capital and organizational growth.***

The research is particularly pertinent when considering the implications of convergence with respect to hiring, developing and retaining talent – microfinance asset managers bring one set of values and practices, while traditional asset managers and venture capital firms bring other issues into play. We feel strongly that social impact investment — and multiple-bottom line investing in general — requires many skill sets, some of which are in scarce supply. As an initial effort to understand current practice and convergence trends, we interviewed a handful of microfinance and traditional asset managers in the US, and with a specialty rating agency that evaluates both special purpose firms and funds that offer debt or equity, primarily in the microfinance sector.

### *About the Organizations participating in the Pilot Research*

This pilot research included a range of organizations – small to large, and non-profits, investment and VC funds, and corporations. Size is defined as the number of **people** working in the organization, not AUM or other financial/investment indicators. For purposes of this research only, the size categories are defined as: Small = 1 – 15 persons; Medium = 16 – 30 persons; and, Large = 31+ persons.

There were four small-, two medium-sized, and three large organizations that participated in this pilot research. A total of fourteen individuals were interviewed — with two or more persons (typically at different levels or in different roles within the organization) from several of these organizations. Although the sample size is small due to resource constraints at One Planet, we are pleased with the broad array of organizations vis-à-vis the nature of the organization (size, focus). Almost all the organizations involved had a very strong social mission in which the staff was attracted to and committed. This mix of organizations provides a mosaic of issues, financial approach ideas, and ways for encouraging human capital and organization development:

- Smaller organizations included in their mission statement references such as — individual support to — new organizations, social change; small business development; and, deploying human capital to implement businesses and communities.

- The mission statement of the medium-sized organizations included — the rating of investment funds that facilitate the flow of capital markets to micro-entrepreneurs, and ones that provide resources for social investments. The large organizations were focused on, for example — advisory and consultancy services; working with intermediary organizations, promoting entrepreneurship, a fund of funds, and banking with the banked and un-banked.

- The organization structure in most of the organizations interviewed was relatively flat. However, as the organization grew the structure became a bit more hierarchical and complex.

- The presence of a Board of Directors is similar in most cases, regardless of size. Where there is a Board, its size ranges from 8 to 12 people; where there is no Board of Directors, there is an Executive Committee. The Board committees function similar to Boards of other organizations with a strong emphasis on the Investment/Finance Committee. The Board committees meet regularly and the Board itself meets from quarterly to annually.

### III. Overview of the Data Gathered

Our research findings reveal a wide range of human resource practices. Those interviewed are actively aware that their attention to human capital and human resources issues and support is critical. This was articulated as key, given their emphasis of social, and some cases — environmental, issues through services performed by them. However, there are some limitations to doing everything they want to do — principally cited were financial limitations.

The **biggest challenge** for many of these organizations is the ability to pay salaries commensurate with experience and knowledge of those persons they want to hire. Salary scales in social sector and development consultancies are significantly lower than pay scales and compensation practices in mainstream finance. In order to access needed skill sets at “affordable” price points, surveyed organizations use out-sourcing and part time (50%) staff to fill some fundamental positions, most notably the human resource function. In the larger organizations, the human resource person (part-time) writes the job announcement, receives the applications, and manages the first review process, schedules interviews — interviews are usually conducted by the hiring managers and other colleagues from that Unit or Department. ***All organizations make an effort to ensure that their hiring function is cognizant of the skills and experience needed to maintain and grow their operations.***

Friendship and professional networks are the resources most universally utilized by these organizations when scouting for new human capital and in the **hiring process**. They also use announcements on websites in the social impact investment field; global, industry, and other trade industries websites were also mentioned. Social media websites, such as Linked-In, Ideal list, Craig’s List, and the Microfinance Gateway — are utilized along with the occasional recruiting company, when the position is part of the executive cadre. Local universities and those where staff have graduated or where staff may be teaching are also sources of candidates. Internships and volunteers provide additional human capital as well as potential future hires. For positions in international offices, firms also recruit in the region — looking for someone with cultural ties and knowledge of the local economies and systems.

The hiring process includes, to some extent, a **benefits package**, usually composed of health and vacation benefits; some educational reimbursement support is available; minimally, when support funds are not available, the work schedule is crafted to accommodate class time for academics or training. Ref-



erence checks are routinely conducted but no drug or background checks are conducted. This was commented on during several interviews with the recognition that they should be standard elements of the hiring process.

Reiterating, the greatest challenge is offering salaries that are of a commensurate/appropriate level to attract and retain experienced people. This poses a contradiction since the organizations are searching for persons that have “experience and knowledge” in such diverse areas, such as compliance, financial investment, environment, international, regulatory issues, and yet they have limited funds for salaries.

On-boarding is understood to be the comprehensive program, with related processes and procedures, for bringing human capital into the organization. This extends to their welcome, orientation, supporting “best fit”, inclusion into the workplace culture, workplace relationship building, and providing training and development opportunities with a career perspective. *The idea is that on-boarding helps new hires to integrate and become productive with greater ease, thereby generating more value for the hiring organization.*

The **on-boarding** process, as such, does not occur with any frequency although some aspects of it do occur in some of the organizations — for example, the person signs a contract, is assigned space and an e-mail, for example. The person responsible in the Unit or Department can then, or not, have a plan for introducing the person to the others, team building, or any other entry process that supports the person easing into the job. The range of actions go from giving the new hire a copy of the Employee Manual, the human resource packet, an e-mail circulated (as an informal means) of introducing the new hire, a two-hour orientation or annual orientation. When the new hire is not from an internship, then an induction period can occur. Induction periods often coincide with the time frame employers have to release new hires who are not working out before permanent employee status becomes binding.

More extensive on-boarding occurred where a Unit/Department had conducted, for example, any of the following:

- its own orientation program;
- a 2-week organizational orientation program
- on-boarding by partner or specific executive who also, in some cases, was a mentor to the new hire;
- off-sites that have several purposes, one of which is welcoming the new hire/s; or,

- thorough on-boarding during the first six months which includes welcome letter, planned exposure to staff and operations across the organization, internal training, and support materials.

All persons participating in this research acknowledged the need for and importance of effective on-boarding and that there was a need to do a better job. *Time constraints, limited access to HR talent and concerns about what type of on-boarding would truly add value are all obstacles to “doing a better job.”*

#### **IV. Dealing with Human Talent Challenges**

In many of the organizations interviewed, there existed a proportionately large number and array of responsibilities per staff person. There were some points of concentration in terms of job responsibilities — most notably at the analyst level where there were relatively specific activities in the majority of cases. In this environment and when there is relatively low amount of talent development and support for newly promoted managers and executives, it is understandable that there are no or few mechanisms for handling human capital challenges.

The primary challenge, in most cases, was work/performance-related. The first level of attention was at the supervisory level; and, since there are very few human resource professionals on staff (again, there are a few organizations with a part-time person) the “challenge” was usually escalated to the executive level when supervisory level intervention produced unsatisfactory results.

Some other issues that can cause challenges, perhaps organically given the current workplace reality, were salary differentials for staff at headquarters and those in other countries. Additional challenges were noted between those staff with a longer history in the organizations and those that were more recent hires — often this also implied a generational gap. This cross-cultural mix, inherent in almost all organizations, signifies differences in background, experience, and academics.

There appears to be little organization action from/follow-up on any learning that takes place in the human capital arena. For example, using human capital challenges as a framework around which to promote organization change, procedures, processes, and values does not seem to happen. Challenges are seen as problems, thus they are addressed, “solved”, and then it is onto the next problem. In the absence of policies, processes and systems that would and address a particular “problem”, issues tend to reoccur. More time may be lost

to repeatedly undertaking quick fixes than to creating conditions that avoid the need for these fixes. ***The greatest challenge as the industry grows is “how to” take care of sophisticated and talented people and “how to” get to next levels.***

One of the inherent management issues in organizations with social missions, double- or triple-bottom lines, is the clash between the cultures of their staff from the development and social arena and their staff from the financial/investment arena. Two different organization cultures, with different values, must merge into one workplace that shares the same strategic goals, and agreed upon work plans. Clearly expressed core values are needed as a framework for this integration. However, most of the organizations did not have a clear, public (ex. website) articulation of their core values which could alleviate some of the friction between the professional areas. Some of the persons interviewed understood their mission statement to embody the firm’s core values; several have not necessarily developed an agreement on proceeding into the future nor articulated a specific theory of change.

Several organizations with a list of core values mentioned that they were “old” and had not been reviewed or up-dated. One organization mentioned that they heavily recruit for values aligned with theirs (and skills sets) and another that “fit” and “values” were important in their recruiting process. They were looking at candidates that share their same values — not necessarily organizationally recognized as values — of loyalty, trust, and confidence.

## **V. Programs and Activities that Develop Human Capital and Organizations**

Most of the organizations interviewed do not have any planned, consistent or formal human capital development nor organization development program/initiatives. It is widely recognized that this is a serious need but is hampered by lack of attention that results from work demands and lack of funds available for development. There are many conscientious attempts to provide some training and development. Examples cited include: field trips; brown bag lunches; participating in meetings or conferences (both national and international) as a capacity building or “shared experience” event; or encouraging staff to take classes on their own time. Internship programs were seen as tapping into new human capital resources. Many, but not all, were unpaid internships.

The **development of talent** follows a similar organizational path as onboarding — a recognition of its importance but time, staffing, deadlines, meetings,

financial resources — all limit the ability to have a quality talent development program. The array of initiatives goes from passive actions such as having a folder with information and an “each one teach one” approach, to more proactive initiatives such as sending staff to training and conferences.

The larger organizations have a more inclusive approach and more opportunities for staff. They have staff retreats, some tuition reimbursement, and training and development opportunities. Those organizations that have a formal performance appraisal procedure usually had a section in the appraisal that addresses professional/talent development. The issue is whether the individual and the organization is capable of following through and taking advantage of the performance appraisal results through actual development activities. The other organizations either have a small training budget (no development budget) or no training/development budget. Those with no budget encourage hands-on training/pairing and have a culture that is open and supports talent development, albeit with no funds. All organizations interviewed were conscious of the need to do more. ***Most of the “organization climates” were described as entrepreneurial by the respondents, yet they also acknowledged that there was little time/care given to the development and growth of the existing human capital.***

The existence of an organized and effective **mentoring program** with intentional purposes and expected results was non-existent. The activities of mentoring and shadowing, occur in some instances on an informal and *ad hoc* basis, including pairing a person with experienced staff. This lack of “planned purpose” resonates throughout the organization — from senior to junior personnel, where they comment on the absence of support. Often mentioned were situations where a person was promoted to, for example, a management position yet there was no training nor mentoring to help prepare the person for the new level of responsibilities. *Respondents mentioned that training in management theory and skills for someone newly promoted would have been helpful, rather than the self-discovery process that emerges in their absence.*

Also creating tension was a near absence of “ways” (processes, procedures, guidelines) to handle problems — usually it was simply that the supervisor spoke with the person. A consultative, problem identification-solution approach was not utilized, but some “back channels” could be used. Communications, Information Sharing, Developing People

Some of the critical aspects of the productive workplace environment are related to communications — interpersonal connections, information sharing,

team work, and recognition of team importance. As organizations grow and expand, there are natural challenges to the communication systems and to internal levels of understanding and collaboration. Since many of the organizations interviewed in this research were small and growing, they have already been grappling with ways to maintain good and open communication channels while handling the increasing workloads and commensurate pressures.

The most commonly used means of communication were regularly scheduled meetings — weekly and monthly staff meetings, weekly Unit or Department meetings, for example. The Executive team meeting was composed of senior personnel, although in a few instances staff at other levels were included. There was a conscious effort by some to include younger staff, analysts, and some support staff in regular meetings of the organization or Board Committees. This was seen as a way to provide a learning experience and to keep the communication and information channels open. Also mentioned were weekly pipeline calls, team field visits, and weekly Investment Committee meetings all of which also served for both talent development and communications.

Attending the Board of Directors and Investment Committee was often seen as a talent development opportunity for analysts and associates. Senior level staff usually made the presentation to these Committees. Often the team or Unit that worked with the presenting senior staffer also attended, sometimes only as observers, sometimes participating in the presentation and discussion. Most of the organizations are quite aware that participating in these Committee meetings and working groups are important for both talent development and organizational communications. Some of the persons interviewed also mentioned special off-site events, from ½ to 2 days, which were planned to encourage better communications, team building, and an opportunity to learn more about the business.

#### A. Workplace culture

The words most often used to describe the workplace culture were “passionate” and “hard working.” Other descriptors included:

- very team oriented; highly committed team of over-achievers; learning
- collegial; open; cooperative and collaborative
- strong work ethics; dedicated; candor
- highly flexible; flat; egalitarian
- remains a bit of a silo structure – junior staff are seen simply as a “resource”

- entrepreneurial; open exploring of ideas; high level of energy/commitment

- compete for bigger responsibilities; quite competitive

- no back stabbing; no trying to scoop deals

In most cases, the organization structure and processes promote collaboration. This is important for several reasons — small-size organizations have too many pressures on people and larger-size organizations have too many opportunities for gaps. Additionally, there are inherent “competitive” aspects within the workplace that need to be balanced with a more harmonious environment. Several persons mentioned that they have recently been trying to pay more attention to “work/life balance” issues for themselves and the organization, as a whole.

This research understands **healthy competition** to mean reaching for new and into boundary-less futures — both at the individual and organizational level. This involves the capability of being and becoming different. ***Our approach to healthy competition entails the view that sustainable and profitable growth is not the result of a deal but rather the result of foresight; of taking a long-term and holistic view of business as a multiple-bottom line proposition.***

The interview question regarding the **nature of competition** in the organization was thought-provoking and, for some, produced a bit of a shock. The first reaction was often that no competition exists, everyone was happy and worked well in their teams. This pre-disposes an opinion that “competition” is unhealthy while that is not the perspective to which this research subscribes, as mentioned above. Most of the interviewees’ explanations revolved around, for instance, the fact that few people were doing the same job (so no competition), that there was a team approach (so no competition) or that people were too busy with their own work to compete. They mentioned that there was perhaps “generational competition” — that it was the “younger” people, possibly the interns, who were vying for a permanent position and/or stable job. Additionally, the pressures of profitability and new deals were inherent and were acknowledged as contributing to competition. Most mentioned that the team approach was seen as a way to address, mediate, or deal with competition.

#### B. Core Values Communicated to Staff

All organizations that participated in this research have strong social missions, many with a double bottom line. The social mission was usually embodied

by the organization itself, although in at least one case, a separate Foundation was created to engage in social mission-related activities.

The striking aspect of this is that few of these organizations have articulated core values that guide the organization and its work. Some mentioned that their core values were inherent in their mission statement; others mentioned that they have informally articulated core values. Most senior level staff held “assumptions” that everyone “knows” what the core values are but there was no specific list, in many cases. Most interviewees mentioned that financial inclusion, social equity, access for all, and integrity in their work were important. One of the most pro-active organizations surveyed conducts a session with staff every six months to talk about and list core values, as well as ask relevant questions around core values, such as — which are more valuable? Which are no longer relevant? Do others need to be added? ***These values-focused discussions enable the organization to deal with growth while maintaining synchronicity on strategic goals, core values, and ways of working together.***

Given the lack of specific core values, the aligning of these with their work expectations, standards and collaborative work processes was “informal.” One organization mentioned that core values impact informally on performance, especially on the performance appraisal, with a high value placed on honesty and transparency. While participants were thoughtful about this, the results show some incompatibility (between performance and management styles) that may remain unresolved since there is no process in place to deal with the alignment of values and performance expectations.

The impact of core values on the work environment, teams, and stakeholders is consequently (since they are most often not articulated) not impactful — people do not make the connection. It appears that the core values do not impinge on the daily work and its environment. However, the management in one participating organization noted that they make strong efforts to ensure the “right fit” between staff and core values; they help them to communicate and become part of the team. If this does not occur, then that person leaves the company.

### C. Governance

The role of governance is one that is evolving within the social impact investment industry. The understanding and utilization of “good” governance is generally understood as knowledge of and compliance with the rules and regu-

lations — which is part of the broader governance area. This research understands governance to include:

- Compliance with Rules and Regulations;
- working relationship between Boards of Directors, their Committees, and with the organization and their staff;
- knowledge and ability to serve as and be a Director; and
- procedures and processes related to reporting, procedures that direct impact or productive work and quality reporting with transparency

Developing talent in governance is a relatively informal process, when it exists, in most of the organizations interviewed. Attention was given to governance when the need occurred — for example, a staff member becomes the organization's representative (or alternate representative) on a Board — then “governance” becomes part of the conversation. The rating organization interviewed has been rating MFI's for over 14 years and one section of the rating process is dedicated to governance, broadly defined. However, the other organizations have vastly different ways of “dealing with” governance — ranging from casual conversations, team attention to governance issues and some training to some instances of specific development of staff. Development primarily means exposure to governance and to the discussions about it that occur within the organization.

Some organizations see governance as part of their credit and/or investment culture while others simply talk about it in general terms. **Governance is not an experience or capability that is currently recruited for among the organizations interviewed.** Mentoring and other initiatives were mentioned as ways of starting to deal with the area of governance.

Some internal actions, mentioned, that were used to provide governance learning and experiential base to staff, were —

- *in situ* training; on-the-job training
- Board of Directors with staff; look at Network Fund best practices
- talk about Governance when talking about deals
- one-day training in Governance for the Investment Team

However, the following comment was also made:

*“not a lot of governance training; governance management training has not been explicitly sought or offered as an internal professional development opportunity”.*

Some staff have participated in off-site training; yet, they have been unable to bring any substantial programs into the organization for other staff.



This begs the question: how come there are so few programs in the area of human capital and organization development in these organizations? The “easy answer” is that they have no funds for this and thus need to look for funding. Other responses included, a work environment that is overwhelming — too much work, short deadlines, for example; and, most critically, that the organization’s stated priorities do not include governance, human capital nor organization development. ***The bottom line question is — when will organizations actually do something with their ideas and start investing in human capital and organization development?***

## **VI. Coping with Business Growth and Expansion**

The human capital and organization development aspect of these organizations during the business growth and expansion process brought similar responses as those mentioned in the above paragraph, for example — lack of funds, too much work, no time for anything other than work and producing results. Some consequences of business expansion — without new hires — mentioned by those interviewed were: “broader and deeper” individual workloads; increased amount of time in managing people, systems, paper, programs and projects. As the business grows and expands, a natural consequence would be to hire more persons to handle the increased work load. However, this increase in staffing does not always happen as the organization begins to grow, thus producing tension and stress in the workplace.

The principle challenges caused by growth and expansion were indicated to be, for example:

— *training challenges* — the training that could have been considered (in some organizations) as “sufficient” becomes not sufficient;

— *organization/workplace culture* — more care has to be given to potentially negative impacts;

— *organization systems* — pressure on them to grow, sometimes exponentially, to accommodate all needs, demands, and opportunities;

— *compensation for human capital* — this includes issues related to pay scale and providing competitive salaries and consultancy fees, benefits, and the need for more money, monthly, to meet the payroll;

— *talent pool* — this includes discovering that there can be shallow talent pools in some skill areas, and if one hires people needing more training then it automatically pressures “training” which is not an established Human Resources function;

— *talent* — finding and retaining talented middle management to promote/leverage into senior management and leadership positions;

— *communications* — ensuring that communication channels are inclusive, that information generation and distribution are inclusive, and that people continue to feel that they are part of the team;

— *hiring processes* — pressure on these practices to ensure that the person possesses the necessary technical skills but additionally that they have the character and personal qualities that will help them to contribute and succeed in the organization; and,

— *business model* — growth and expansion requires systematic review and possible changes to the model at a strategic level.

While both **creativity** and **innovation** were understood, by most of those interviewed, to be critical for their ability to succeed and grow, there were diverse organizational responses to these words. The spectrum covers:

- not having done anything;
- “we encourage”;
- a culture that is open to and encourages new ideas;
- realization that a champion is needed to foster persons’ new ideas through an organization where everyone is over-worked (sometimes in a too small environment) and with bottlenecked systems at times that would only be more complicated with the implementation of new ideas; and

- a few of the organizations have created a working or *ad hoc* group that, among others, explores innovation and encourages receiving creative new ideas

A workplace that values creativity and innovation is critical for moving the work forward, creating new products and services, and contributing toward industry advances. Given that the global economy is more frequently impacting a larger amount of human groups, it is imperative that the human capital of the organizations create new ideas, concepts, methods, approaches for dealing with and solving the complex socio-economic and cultural issues that are constantly arising. **However, the need for a strong and proactive value for and respect of creative and innovative ideas gets lost in the presence of the daily grind.**

With respect to human capital sustainability while concurrently encouraging organization change with excellence, the organizations interviewed also had diverse means and mechanisms for responding to the sustainability challenge. Some of the ways/means mentioned were, for example:

— preparation of what would be understood as a “succession plan”

- a career path for junior professionals
- VC “carried interest” payouts which facilitate staff retention; also, long-term bonus and financial rewards
  - send junior people to help with training and development programs sponsored by the organization, creating peripheral learning and a sense of organizational ‘thank you’
  - national and international meetings and conferences — some organizations send people to participate, some to learn, and some to help a Senior person

#### A. The Role of Industry Associations

Industry and related associations provide a marketplace for exchange of ideas and experiences, support to social impact investment staff, and a vehicle for connecting and relating with others in the industry. Among those Associations that the participating organizations most commonly engaged with were:<sup>2</sup>

- Neighborhood Works
- Opportunity Finance Network
- Association for Enterprise Opportunities
- Washington Regional Area Grant Makers
- Social Investors Forum
- Principles for Inclusion Finance (UN-PRI)
- Global Impact Investment Network (GIIN)
- Aspen Network of Development Entrepreneurs (ANDE)
- Social Performance Taskforce
- Women Advising Microfinance (WAM)
- The Funders Network (TFN)
- Council of Microfinance Equity Funds (CMEF)
- International Association of Micro Finance Investors (IAMFI)

#### B. How the Organization Participates in Associations

The most frequently mentioned response about participation in industry-related organizations was as a speaker, as a panel moderator, or as a

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<sup>2</sup> Other industry Associations that were referenced include: Fast Company – Fair Trade USA; B-Corp; Social Venture Network; community development organizations; SOCAP International; NVCA-National Venture Capital Association; International Housing Coalition; SEEP Network; Africa Micro Finance; Transparency International; International Association of Micro Finance; Council of Microfinance Equity Funds; Global Corporate Governance Forum; Emerging Markets Equity Association; Pacific Pension Institute. *Meus companheiros*,

participant. In most instances, it was senior or middle-level staff that participates. However, a few organizations send junior staff as a training opportunity or as a non-monetary performance reward.

Most organizations were consciously attempting to participate, with more frequency, in industry associations and they are also endeavoring to register more people to participate in them. ***Recognition of the early stage of industry development and the need to create and generate consensus for industry-wide standards, norms and practices is one of the key drivers behind these efforts.***

### C. Performance Appraisal Systems, Processes, and Consequences

A majority of the organizations do have some form of a performance appraisal process. The more formalized have 360-degree, regular and systematic processes and procedures, where there are structured, qualitative feedback and benchmarks, including — quarterly or semi-annual meetings, and an annual review. Some of the areas included in the performance appraised included — knowledge, quality of work, communications, teamwork, problem solving, management, interactions with clients and peers, and presentation skills. Most organizations had their staff prepare annual individual goals that are related to business and operations, a few also included professional development goals. Occasionally, there was a more informal process, usually within the smaller organizations where there is so much work to do and no funds to hire experienced human resources staff. Several of the organizations interviewed do have a bonus or other type of “reward” program. The more formal programs — an integrated part of the human capital system — entail and/or impact upon salaries and salary increases and bonuses.

The larger organizations develop an annual work plan and this feeds into the performance appraisal process. The work plan includes specific objectives and desired results, accountability, for example, and is communicated to others by sharing with senior management who then decide what and how to share with their units.

Poor performance, in these more formal systems, was also acknowledged and dealt with, for example, through feedback-related meetings, mentoring or counseling sessions, and job transfers. Improvements are acknowledged and the person continues with his/her work assignment. Those with “less than successful” results are handled, for example, by internal transfers looking for “better fit.” Other organizations scheduled a meeting between the CEO and “poor

performer” with the intent of sorting out the various situations contributing to the poor performance. The worst case scenario in these organizations was firing the individual. On the other hand, high performers usually went beyond the expected. In most cases, even with clients, immediate feedback is encouraged throughout the year.

The larger organizations with more complex structures also had more complete appraisal processes but were grappling with how to deal with the source and nature of staff expectations vis-à-vis the appraisal process. The existence of multiple organizational vectors — for example, multiple geographic locations, a wide array of services, and a cross-section of teams and practice groups — causes the need for new thinking in order to make the appraisal process meaningful. A few of the issues that need to be considered are — communications and information sharing, who has ownership of risk and new initiatives, how to deal with administrative staff and junior professions that have multiple reporting relationships. The more complex structure also impacts on various human resource processes, on-boarding, rewarding and bonuses, for example.

## **VII. Conclusions**

The individuals who participated in this pilot research were very thoughtful, reflective, generated interesting ideas and acknowledged challenges. All of the organizations face constraints — internal and/or external — that impede their efforts to be proactive in managing human capital and organizational development for growth. The conclusions of this pilot research are structured in three sections: a) human capital and organizational development issues; b) industry-related issues; and c) other, incorporating concerns that fall outside of the previous two sections.

### **A. Human Capital and Organization Development Issues**

1. Financial and social professionals have a hard time understanding each other. This is an inherent and across-industry situation where social impact investment firms are hiring from two general pools of experience — finance and investment organizations and those from development and social sector-related organizations. This seems to be one of the most critical management issues and these organizations are still grappling with this situation, especially given lack of budget, in most cases, for human capital and organization development.

2. Another challenge is that organization staff from different fields do not share a common vocabulary. While organizations hire for experience, talent, knowledge, for example, these categories are themselves “challenging” when hiring for a workplace that has professionals from two different fields — financial and social.

3. One of the biggest challenges for participating organizations, and indeed for the whole field, is that while there is quality talent available, the organizations do not necessarily have the ability to make job offers that these individuals will accept. This relates to their ability to offer compensation packages, including salary and incentives that are commensurate with experience and capabilities.

4. A thorough on-boarding program was acknowledged as important for an organization but yet most participants had no such program — portions of it perhaps existed but not a comprehensive program. This needs to be addressed so that there is better alignment between organization objectives, approaches to productive workplaces, and employee job satisfaction.

5. Complete training and development programs are also needed. Those interviewed realized the need — they placed a high value on the ideas of continuous improvement, training, and development of their staff; although in some instances they understood, erroneously, that training and development were synonymous. The primary limiting factor appears to be funding and time for senior staff involvement in design or selection. All the organizations in this pilot research do provide, minimally, some training opportunities and several engage in development activities. On a related note — several of the organizations expressed the need for funding to provide more thorough human resource services for staff.

6. Creative solutions need to be generated to address, for example, the lack of funding situation. Perhaps a “pooling” and/or “sharing” arrangement can be organized. Programs could be designed and implemented that would be customized for each organization’s needs but where there is a resource sharing situation.

7. The presence of different generations in the workplace creates benefits (ex. hands-on learning, mentoring, stimulating communications) as well as issues related to understanding and approaches to and pace of work. The need for succession planning was mentioned by several participants as important but apparently their organizations had not yet engaged in succession planning.

8. The organizations all needed to have a management and leadership development program, minimally as an organization-supported program. This is especially relevant in managing growth, dealing with promotions and preparing staff to handle new assignments and responsibilities. The most critical need was when a person is promoted from a technical role to a management and/or leadership role.

9. Maintaining the energy and enthusiasm for the organizations goal's, values, and ways of working is a constant challenge, especially as the organization grows. Communication and information sharing assume more critical roles during a growth phase and require new approaches as the organization grows.

## B. Industry – Eco-System Considerations

1. As the social impact investment industry changes, there are more people attracted to it. People — some mid-career, others wanting change — are leaving Wall Street and corporate positions to work in a more socially meaningful environment. Funding, again, is needed by these organizations to attract and retain these experienced persons. Shareholders, Boards and Management teams all need to be aware of and responsive to this issue.

2. Several participants mentioned that one of their principle functions is to find and hire the best entrepreneurs for their double- or triple-bottom line organization. This is seen as a “value added” function that is necessary for the primacy of the organization, although the link between entrepreneurial talent and the ability to manage a growing firm may be weak.

3. Since this is a new field that builds on the work of established fields, some managers felt that part of the work is “standard” for any asset management/investment fund. The other part of the work is innovative and feels unique. Balancing both these workplace realities requires their constant attention and is where the value for creativity and innovation come into the forefront.

## C. Other Conclusions or Considerations

1. In many instances, there is a gap between verbally articulated ideas of values — core and otherwise — and what is written in policies, websites, or annual reports. This situation creates a potential for misunderstandings, mistaken assumptions and conflict. There should be congruence between written and verbal discussions about values and other human capital-related actions that facilitate hiring, performance appraisals and the like. Is this situation one of

the elements contributing to a lack of human capital improvement and talent development?

2. Another contradiction that exists is between the participants acknowledged and articulated statement that **people are the greatest asset** and the failure to translate this statement into meaningful human capital policies and procedures within the organization. If people are the greatest asset, where are the inclusive on-boarding processes? Where are the staff, management, and leadership development programs? Where is talent development, in general? Where is succession planning? The organizations systems, policies, procedures, processes and values should affect the reality that people are the greatest asset.

3. The ability of these organizations to create long-term career paths is hampered by the need to get the current job done. There were no/few organizations with formal human capital development activities such as focused and intentional talent development, career development, staff development, management development, leadership development, or executive development.

4. As the organizations grow, the use of technology in the human resources function will take on a greater role, impacting communications, training and decision making, for example. It behooves the social impact investment organization to invest in its own social capital as a means for securing future success. At the same time, “conventional wisdom” in the investment world argues for lean and mean budgets and staffing, without reflection on how this might affect growth and sustainability in an emerging field of practice.

5. It was suggested that the use of variable compensation schemes would be an important consideration for strengthening the organization and its human capital. Performance linked compensation could provide incentives for excellence and staff retention and attach specific value to available professional development opportunities.

The findings from our pilot research indicate that more effort and attention must be focused on human capital and organization development priorities if the incipient impact investment industry is to grow rapidly and sustainably. One Planet and Smith Soares Associates hope to find partners interested in supporting an expanded study that incorporates concerns and findings in specific regions of the world, particularly Latin America and Africa. Please contact Ms. Soares or Ms. Burnhill with comments, questions or indications of interest with respect to collaborating on follow-on research.

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Ms. Lauren Burnhill, Lauren.OPV@gmail.com



## Annex I

### **Contact Information for Participating Organizations**

The following organizations graciously agreed to be interviewed for this research effort and to share their contact information with the public. One or two participants, for reasons of organizational policy directive, agreed to participate anonymously and have asked that we not include contact information. We are most appreciative of their frank and open discussion of sensitive topics, as well as of their clear interest in doing more for and with human capital in addition to the more traditionally valued financial capital.

MicroRate

[www.MicroRate.com](http://www.MicroRate.com)

US Contact: : [katherine@microrate.com](mailto:katherine@microrate.com)

Aspen Development Entrepreneurs Network (ANDE)

ANDE

Contact Jenny Everett, Associate Director: <[jenny.everett@aspeninstitute.org](mailto:jenny.everett@aspeninstitute.org)>.

Shorebank International

[www.sbksbi.com](http://www.sbksbi.com)

US Contact Info: 202-822-9100

### **Abstract**

The research conducted here and their results is a pioneering effort to document the first time, some issues of human capital and organizational aspects of the emerging culture of work and future potential impact of these funds. Investment impact is expanding globally and with this comes new opportunities for social investment and / or environmental impact and a greater awareness of this in civil society. While dual organizations and / or triple bottom line (double and / or triple bottom line) are more prevalent, experience shows that human capital of these organizations are composed of professionals from various areas. Is emerging a workplace that might be interesting and dynamic, but both are demanding effort, without limitation, the person. The sources of employment in this industry include - hedge funds, venture capital and securities market and the areas of micro finance, micro-housing and micro-insurance. This research identifies areas that need attention, executive and managerial action. The findings reveal, among others, that are working with local cultures and ways of working forked, multiple job responsibilities with a single

individual, lack of understanding of the differences between training and development (and lack of programs for staff), no program professional development or career, no comprehensive program to include new staff (on-boarding), use and understanding of governance incipient and difficult conditions to pay earned wages to attract the professional level desired.

Keywords: Human capital. Impact investment. Workplace.

### **Resumo**

A pesquisa aqui realizada e seus resultados é um esforço pioneiro para documentar, pela primeira vez, algumas questões de capital humano e aspectos organizacionais emergentes sobre a cultura do trabalho, e impacto potencial do futuro desses fundos. Investimento de impacto está expandindo globalmente e com esta vem novas oportunidades de investimento social e/ou ambiental e maior conscientização disso na sociedade civil. Enquanto organizações de dupla e/ou tripla linha de resultados (double and/or triple bottom line) estão mais prevalentes, experiência demonstra que o capital humano dessas organizações estão composto de profissionais de áreas diversas. Está emergindo um local de trabalho que poderia ser interessante e dinâmica, mas simultaneamente está exigindo esforço, sem limites, da pessoa. As fontes de emprego nessa indústria incluem — hedge funds, venture capital, e mercado de valores e as áreas de micro finanças, micro-habitação e microsseguros. Esta pesquisa identifica áreas que precisam atenção, ação executiva e gerencial. As conclusões revelam, entre outras, que são locais de trabalho com culturas e maneiras de trabalhar bifurcadas, múltiplas responsabilidades de trabalho com um só indivíduo, falta de compreensão das diferenças entre capacitação e desenvolvimento (e falta desses programas para o pessoal), nenhum programa de desenvolvimento profissional ou de carreira, nenhum programa abrangente de inclusão de pessoal novo (on-boarding), uso e compreensão incipiente de governança, e difíceis condições de pagar salários merecidos para atrair o nível de profissional desejado.

Palavras-chave: Capital humano. Investimento de impacto. Local de trabalho.

Muito obrigada a Lauren Burnhill para sua amizade e apoio com esta pesquisa.