

Creating an Effective Leadership and Development System for FINCA Costa Rica

Meaghan Carroll¹, José Jiménez¹, and María Padilla²

¹Department of Systems Engineering
United States Military Academy, West Point, NY
²GRUPO FINCA, San Jose, Costa Rica

Corresponding Author: Meaghan.carroll@westpoint.edu

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Abstract: GRUPO FINCA Costa Rica is one of the oldest nonprofit microfinancial institutions in Latin America. Although the organization has shown tremendous success over the past four decades, they wish to improve their systems to become more effective. After analysis of their organizational systems, it was determined they need a new training system and methodology for their employee education. The proposed training system was developed in order to give FINCA the ability to holistically train their workers to become quality employees and therefore bring longevity and ingenuity to the organization. The six-part training system includes sections on the importance of microfinance, nonprofit organizational function, FINCA organizational hierarchy and operations, baseline financial knowledge, quality, and leadership training. Implementation of the proposed training system will demonstrate the importance of holistic education for employees and how they can better an organization with background knowledge and intent, creating stronger teams and organizational results.

Keywords: Microfinance, Microfinancial Institutions, Leadership Development Training, Costa Rica, Macroergonomics

1. Introduction

Why would a student at the United States Military Academy (USMA) care about a micro-financial institution in Costa Rica? Why would a cadet devote time and effort from their busy schedule of academic, physical, and military requirements to make a baseline training program for a foreign nonprofit? At USMA, cadets focus on leadership development in the context of the world stage. Oftentimes the situations presented to us in classes from fundamentals of physical fitness to human geography use examples of the dynamic situations that we could potentially be facing as officers. In today's world sphere of marginalized individuals resorting to extremist organizations for a sense of purpose and wellbeing, understanding the importance of microfinance and its ripple effects is critical for future leaders. This paper will explore the importance of microfinance in a developing nation in terms of one nonprofit organization; GRUPO FINCA Costa Rica.

The Fundación Integral Campesina (FINCA) is an organization that has grown rapidly and successfully across Costa Rica with over 100 local community microfinance companies in their jurisdiction. The institution has grown to the point where it can no longer provide individualized training for FINCA employees and essential personnel at the community microfinance companies (the current system), and therefore need a training system that can grow with the organization. In order to fulfill this need, the proposed training system includes a six-part program containing sections on the importance of microfinance, nonprofit organization function, FINCA organizational hierarchy and operations, baseline financial knowledge, quality, and leadership training. The training system was developed using a Macroergonomics framework and the macroergonomic analysis and design (MEAD) 10 phase training model. The program will be led by a master teacher, who is educated and experienced with the skills necessary to ensure the quality of the training program. The new training program will ensure each employee is properly trained with not only the skills necessary to do their job, but also with the background knowledge of the purpose and intent behind the organization. This holistic education will bring more ingenuity to the institution and bring more positive influence on the economic success of many rural Costa Ricans.

This paper is submitted as part of the Systems Engineering Honors Program.

1.1 Why Microfinance is Important in Today's World-Sphere

Microfinance is extremely important in today's world. For many countries around the globe that are clawing their way out of poverty, the systems that are in place to help reduce poverty are critical. If microfinance organizations are poorly managed, it could increase the level of poverty quickly and make the vulnerable country less stable. Abhijit Banerjee, Esther Duflo, and Michael Kremer recently won the Nobel Prize in Economics for their groundbreaking work using an experimental microfinance approach to alleviate global poverty, highlighting the importance of microfinance techniques in today's world (The Committee for the Prize in Economic Sciences in Memory of Alfred Nobel, 2019). From a military perspective, understanding the importance of microfinance can be critical to mission success. Acknowledging the hardships of military conflict for civilians and their far-reaching effects, while attempting to effectively alleviate the strain, could reduce the impacts of war. The estimated positive influences from the new training program will bring more stability to Latin America and could become a model for larger institutions, such as the United States Southern Command (SOUTHCOM), to use in the future.

2. Literature Review

2.1 Pertinent background regarding Microfinance

Microfinance in Latin America began with the concept of microcredit during the late 1970s. Microcredit was the first solution to becoming credit worthy for many individuals who were not trusted by financial institutions. The goal of microcredit is to provide access to credit for disadvantaged individuals, and therefore create an opportunity for formal businesses and institutions to do business with individuals they could never have before. During this time there were two different methodologies for giving credit, group lending and individual lending. Group lending involved lending a sum of money to a group of individuals. The loan was split into separate amounts for each person and distributed on the same date. The other methodology, individual lending, was much more versatile and is still in use today. This involved the typical process of loaning to a single person and them being solely responsible for paying back the loan. This methodology is much easier to control and adapt in times of crisis. Due to the increase in popularity of individual loans, the microcredit world was opened. The individual loans could reach more people not only in urban areas but also in rural areas through small business loans. During this time of transition, diversification was key to the success of the institution. In order to reduce the risk associated with lending to impoverished individuals, it is important to diversify through both regionality and differing activities. Diverse enterprises, such as different types of service and commercial products (i.e., handicrafts, tourism, coffee, bananas, seafood) or enterprises in different regions, decrease the systematic risk associated with lending. This reduces the risk of a drought, natural disaster, or political upheaval from effecting the entire financial community (Quirós, 2019).

The evolution from microcredit to microfinance involved a fundamental shift in the way that the institutions conducted business, including becoming a more holistic enterprise and doing business by going to the clients. The changed relationship between the micro-financial institutions and the customer were a large breakthrough in the way to conduct business. This close relationship with a client allowed the institutional representative to have an in-depth knowledge about the individual and created an enhanced level of comfort and trust. They determine the payment willingness and capacity for the customer and recommend whether a loan is realistic for their lifestyle. They also take statements from neighbors and relatives to determine whether the individual is being honest about their situation. This breakthrough in methodology allowed for a greater pool of clients with an enhanced capacity to pay back the loans. Overall this personal microfinance methodology was the solution that institutions were seeking to gain reliable customers (Quirós, 2019).

The Fundación Integral Campesina (FINCA) Costa Rica was founded in 1984 by María Marta Padilla, with the support of Dr. John Hatch. They developed a program in Costa Rica based off a program Hatch piloted in Bolivia using innovative microcredit methodology. FINCA Costa Rica was one of the first microfinance institutions that established village banks (now called Empresas de Crédito, or ECs) to provide these services as a self-sustaining enterprise. The most important factor that allows FINCA Costa Rica to be successful is its effective management of all the ECs, where they grow and manage assets fluidly as a living institution. FINCA Costa Rica is a large umbrella for these ECs and help supply rules and regulations so that each of the individual ECs can run successfully on their own. ECs have their own shares, supplies of resources, asset management, and voting rights. Legally they run like an American Limited Liability Company (LLC). Each EC votes on how it wishes to be structured based on the community needs and strengths. These factors allow FINCA Costa Rica to be a living institution and adapt quickly to change, but not well to management. Because of this, measuring the success of an EC or how well FINCA Costa Rica is doing is difficult due to the amount of autonomy each EC possesses (González-Vega et al., 1996).

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2.2 Training and its Return on Investment

Return on Investment (ROI) is a straightforward method for measuring an investment's profitability. It is a performance measure used to "evaluate the efficiency of an investment," and measures the amount of return for an investment proportional to the cost of the investment (Chen, 2019). ROI models have been typically used in financial settings where it was simple to monetarily calculate the value of the return for an investment. A new ROI metric, Social Return on Investment (SROI), is now being used to evaluate impacts of projects with added value that is not monetary (Chen, 2019). SROI allows for the value of environmental, social, and governance (ESG) criteria to be used in terms of investment calculations. The SROI calculation includes a social impact value (SIV), which varies according to the program being evaluated. Some examples include inputs, direct and tangible products from the activity, changes to people resulting from the activity, or the outcome less an estimate for what would have happened without the activity (Folger, 2019). The purpose for discussing ROI is because it is a specific form of assessment and can be applied to determine how effectively a business is using its personnel and assets. As of this moment in time FINCA ineffectively measures its ROI due to difficulties compiling and synthesizing all the individual EC information. In order to make helpful suggestions for the improvement of FINCAs systems and processes, an understanding of ROI and how it can be applied to non-traditional work is critical.

In terms of leadership, ROI is a combination of the behavioral impact, business impact, and program effectiveness that the leadership development opportunity brings to the organization (Harjani, 2016). According to a Harvard Business Publishing article regarding the ROI of leadership development, the most important aspect of assessing ROI amongst business professionals is understanding what their business wants out of the process (Harjani, 2016). The fundamental question the organization should ask themselves is "what is the business need for this program and what is the business outcome we'd like to see" (Hararaji, 2016). The organization can then begin to determine the business need through defining the measurement strategy using the following ROI metrics:

1. Behavioral Impact – Measuring participant progress against behavior goals through self, supervisor, peer, and sponsor surveys.
2. Business Impact – Quantifying the far-reaching effects of the business transaction.
3. Program Effectiveness – Comparing and contrasting program participants with non-participants on several metrics including career progression, attrition, performance rating, team attrition, and employee engagement.

Harvard Business Publishing Corporate Learning uses this model for many of the businesses they help make more efficient through measurement of their leadership development programs and has found great success among many of their clients.

2.3 Microfinance and Quality

The traditional means of measuring loan quality are too limited for measuring the success of microfinancial institutions. Success for a micro-financial institution is being a self-sufficient enterprise that can grow and manage their own assets, while also being able to expand their scope of financial inclusion and client protection. The current best practice for measuring the success of a microfinancial institution is the quality of its loans through performance indicators. Such performance indicators include:

1. Does the institution adapt to the client's needs?
2. Are the payment schedules personalized to the income and schedule of the client?
3. Does the institution ensure protection of client information?
4. How quickly are the loans disbursed?
5. How quickly does the information flow between the client and the company?

Being able to understand and check up on these microfinance quality performance indicators is critical to the overall health of the organization and their success at reaching their goals (Quirós, 2019). Additionally, the sustainability of the microfinance organization is directly linked to the clients' ability to pay back the loan. For this reason, accurate client and client's project analysis is of the foremost importance (person, project, right amount, right schedule, interest rate, and warranty).

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3. Methodology - Macroergonomics

Macroergonomics is a scientific discipline committed to understanding the interactions among humans and other elements of a system, especially regarding the analysis and design of work systems (Hendrick and Kleiner, 2001). It is also a sociotechnical systems approach to work system design, that specifically focuses on the human aspect in order to make a best functioning organization (Hendrick and Kleiner, 2001). The sociotechnical systems model views organizations as transformative agencies; they transform inputs into outputs. Sociotechnical systems bring three elements to bear on this process: a technological subsystem, personnel subsystem, and work system design consisting of organizational structure and processes (Hendrick and Kleiner, 2001). The original system scan of GRUPO FINCA in Figure 1 displays the differences between the three subsystems. Work system structure is concerned with organizational design constructs; where the work system process is concerned with the method by which process variances are analyzed and design changes are made over time (Hendrick and Kleiner, 2001).

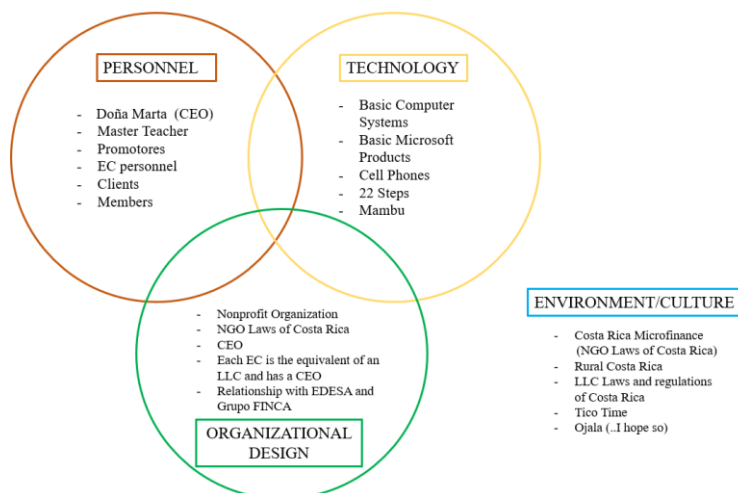


Figure 1. Original System Scan of GRUPO FINCA

Macroergonomic Analysis and Design (MEAD) framework and its associated 10 phases were used in order to develop the FINCA training program (Figure 2). The phases and their sub steps provide a framework for a work system to begin with a strong foundation, consider the system's past and potential strengths and weaknesses, and how to capitalize on them. The defining portion of the MEAD framework is the use of variances. Hendrick and Kleiner define a variance as being an unexpected or unwanted deviation from standard operating conditions, specifications, or norms. They believe these variances are the most important aspect of system redesign to consider, and include differentiation between different types of variances, identifying key relationships among variances as seen in Figure 3, and constructing a key variance control table (Hendrick and Kleiner, 2001). Identification of variances and consideration of their effect on the organization help conceptualize the complexities of the system and where it can improve. This can be show in Figure 3, where the variances of trainer integrity, material used in the training, and quality of the training are the most influential variances and are integral aspects of training success.

MEADs 10 Phases
Phase 1: Initial Scanning
Phase 2: Production System Type and Performance Expectations
Phase 3: Technical Work Process and Unit Operations
Phase 4: Variance Data
Phase 5: Construct Variance Matrix
Phase 6: Variance Control Table and Role Network
Phase 7: Function Allocation and Joint Design
Phase 8: Roles and Responsibilities
Phase 9: Design/Redesign
Phase 10: Implement, Iterate, and Improve

Figure 2. MEADs 10 Phases

Partial Variance Matrix for the GRUPO FINCA Training System										
Unit Operation	Training System Potential Variances									
Throughput	1. Trainer Integrity									
	2. Location of the training	X								
	3. Appropriate duration of the training	X	X							
	4. Setting of Assessments		X							
	5. Material Used in the Training	X		X	X					
	6. Trainee Previous Knowledge	X		X						
	7. Quality of the Training	X	X		X	X				
	8. Standardized Coefficient of Understanding for Training Products	X				X	X	X		
	9. Trainer Previous Knowledge	X		X	X	X	X	X	X	
	10. Culture of Learning	X		X		X	X	X	X	X

Bold text indicates Key Variance*

Figure 3. The Partial Variance Matrix for the GRUPO FINCA Training

4. The Training System

4.1 The Current System

GRUPO FINCA depends on coaches (formerly called “promotores”) for most of the training that occurs at the EC level. These coaches train new ECs and their personnel on FINCA Costa Rica’s methodology, called the “22-Steps of EC formation.” The 22 Steps process includes all the training objectives that a new EC employee requires to understand microfinance. In addition to the 22 Steps, each EC employee is trained on their specific job functions, however, there is no continuing training or tailored education based on job function. Furthermore, if an employee leaves the EC, the coach does not have the ability to train his replacement. The 22 Steps are currently being reexamined to become more holistic and inclusive, as well as incorporate case studies and the new technology.

During the Fall of 2019, a new accounting and technology platform was implemented to closely manage all the administrative functions for FINCA Costa Rica, and to attain accurate information regarding the financial wellbeing of its ECs. Despite this optimization of the technology subsystem, the methodology still does not account for these improvements. This creates sub optimization at the system level. A new training program requires a link to the accounting and technology platform, tailored education by type of personnel, evaluation, and most importantly continuity.

4.2 The New System

Considering the current system, system structure, and company growth, a training program was conceptualized using the MEAD framework to be the system that bridges the gap of knowledge and understanding in the organization. The MEAD framework structured the training system to capitalize on the current strengths of FINCA Costa Rica, while controlling for key variances in the organization. The recently hired Master Teacher will be the instructor in charge of all the training and coordinate the instruction, outside resources, and personnel. The training will allow for all employees to be trained to the same standard, enabling FINCA Costa Rica to be a better functioning organization that can rely on its employees to be educated and flexible in their work roles. The training system will provide a why behind the functions of the organization and their impacts

on Costa Rica, allowing for better trained employees to serve the organization and community more effectively. At the end of the training all FINCA Costa Rica and EC employees will:

1. Have a basic understanding of the organization of FINCA and the history behind the organization in Costa Rica
2. Understand microfinance, how it is employed by FINCA, and why it is important in Costa Rica
3. Understand how a nonprofit organization works and is operated day to day
4. Know basic financial principles and how they apply to the FINCA work environment
5. Know how FINCA Costa Rica is structured and conducts its day to day operations
6. Understand what quality is, and why it is important in the micro-financial world
7. Know the importance of leadership training and the value it can add to an organization
8. Be able to hold other people within the FINCA organization to a Leadership standard

To accomplish these learning objectives, the system is broken into six distinct sections including background in microfinance and introduction to GRUPO FINCA, how a nonprofit organization operates, understanding basic finance, how FINCA works, quality including the performance evaluation report, and leadership including a leadership practicum. This system can also be tailored to adapt to individual roles and responsibilities of each employee at the EC level.

4.3 Highlights of the System

Section 1 contains information regarding the background of microfinance and introduction to GRUPO FINCA, much of which can be found in the literature review of this paper. This section also includes why microfinance is important and the mission, vision, objectives, ethics, and values of FINCA.

Section 2 consists of information with respect to what a nonprofit organization (NPO) is, how does it function and make money, and how it is structured. This section gives the trainee background on the activities of an NPO and their strengths and weaknesses in Costa Rica as NPOs differ from country to country. This section allows for the trainee to understand the bigger picture of the functions of FINCA, how they are funded and resourced, and postured in the hierarchy of Costa Rica.

Section 3 encompasses basic financial knowledge for the trainees. Although most trainees have had experience with basic economics and finances previously, this section provides uniform financial knowledge for all employees. The knowledge includes instruction on the fundamental principles of finance, net worth, how to choose an alternative, nominal and effective interest rates, amortization, opportunity cost, and diversifying risks and investments. This section will be heavily conceptual and rely on examples presented by the instructor.

Section 4 includes material on the hierarchy of FINCA, how it functions day to day, and what makes FINCA a unique organization. This section highlights the importance of understanding the different positions at FINCA due to how they can help and influence each other. It also contains the process of creating an EC, including the updated 22 Steps.

Section 5 contains information regarding what is quality in a microfinancial setting, why is quality important, how quality is ensured at FINCA, how quality and data are related, and ensuring quality using employee performance evaluation reports (PER). As discussed above in the literature review section, quality is essential to the utility and future of a microfinance organization. This section ensures that all trainees understand its importance and role, and how to uphold the standards of quality in other members through the PER. The PER contains six sections: character, presence, intellect, lead, develops, and achieves. The PER is based on the periodic development review (PDR) at the United States Military Academy (USMA) but includes modifications to highlight the needs of an NPO and incorporates the FINCA ethics and values.

Section 6 is a fundamental leadership training seminar. At USMA, leadership is taught through the leadership development model that highlights the importance of new knowledge and capabilities, challenging experiences, reflection, and time to make better more self-aware leaders. This section explains practical leadership using the leadership development model, as well as common leadership challenges and how to overcome them. The section then focuses on how to build a culture of success through effective teams, utilizing the team effectiveness model. The section finally includes how to utilize the PER to create leadership development for not only on the individual level, but also for supervisors and subordinates.

5. Analysis of the System: Conclusions and Recommendations

This suggested training system is a guideline to create best practices for FINCA Costa Rica to become a more effective institution, and therefore provide more support and stability for communities in Costa Rica. The six sections of the training system include information that allows each employee to have baseline knowledge on how to be an effective employee through understanding the fundamentals and their purpose within a larger organization. This allows the employee to not only conduct

their daily job duties, but also understand how they are furthering the organization every day through their actions. This intent, as well as the leadership training provided in the program, allows for more intrinsically motivated employees who will show better performance in the long-term. This training will create a more effective FINCA team, and further the positive impact FINCA has on Costa Rican communities. Although the training system has yet to be implemented, feedback from FINCA suggests that its effects are already being felt. FINCA has recently hired a master trainer with experience in audits and quality control, as well as a Lean-Six Sigma expert. FINCA has begun to reevaluate its current systems and adjust them to become a more effective organization. With the addition of the training program, FINCA will have capable leaders to help carry the legacy of their institution into the future and continue to serve Costa Rica for generations to come.

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