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## **Staff Turnover and Organizational Performance: The Case of Microfinance.**

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The aim of this paper is to analyze the consequences of staff turnover in microfinance institutions (MFIs), a particular type of social enterprise. Microfinance is defined as the extension of financial services to poor clients or to clients with a low level of income, who are often excluded from financial services (Hudon and Sandberg, 2013). Microfinance institutions face different challenges as they have to reach, like other social enterprises, a double-bottom line objective: increasing social performance while being financially sustainable. Within these numerous challenges, human resource management represents a main one (Hudon, 2010). It is indeed a crucial issue for microfinance institutions to attract and retain loan officers who are qualified (Sarker, 2013) and desire to contribute to the double mission of their organizations. According to survey conducted by Microfinance Insights (2008), 46% of interviewed MFIs reported being concerned by turnover. Furthermore, the average staff turnover for the MFIs available on the Mix Market is of 24% for the period 2008-2010, a percentage that appears to be particularly high.

For analyzing turnover in microfinance, we first review the literature in human resource management. Most of the studies on staff turnover have highlighted a negative impact of

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turnover on organizational performance (Kacmar et al., 2006; Hausknecht et al., 2009; Mohr et al., 2012). To explain this negative effect, scholars put forward the loss of human capital (Kacmar et al., 2006; Messersmith et al., 2014) and social capital (Shaw et al., 2005) induced by the departure of staff members. In organizations involving a close relationship between workers and clients, the consequences may be more detrimental because staff turnover also provokes a loss of relational capital. A recent theory, called the context-emergent turnover (CET) theory has emerged recently to better understand the consequences of turnover rate on organizational performance (Nyberg and Ployhart, 2013). This theory “posits that the quantity and quality of turnover rates and replacement hires interact within a dynamic temporal system to influence unit performance” (Call et al., 2015). In this study, we analyze the duration of the effect of staff turnover in microfinance when considering human resource in- and out-flows.

Then, we consider the literature on the consequences that staff turnover may induce in microfinance. As microfinance borrowers often have no or very few collaterals, microfinance institutions, in order to reduce information asymmetry, use the technique of relationship lending for obtaining soft information on borrowers and on their business. Relationship lending is defined as “the process of collecting private, customer-specific information on potential borrowers, and then using it to engage in profitable banking activities” (Scott, 2006, p. 545; Boot, 2000) through social interactions between the lender and the borrower (Lehmann and Neuberger, 2001; Turvey et al., 2014). Therefore, microfinance loan officers have to multiply contacts with clients (Ito, 2003; Siwale and Ritchie, 2012), generating thus relational capital that can be destroyed in case of microfinance loan officers’ turnover. The loss of human, social and relational capital due to loan officer’s departure may reduce organizational performance. We also argue that loan officers’ seniority may act as a moderator for the relationship between turnover rate and organizational performance. On one hand, it may strengthen the negative consequences of turnover rate as most of the skills required for the position of loan officer are

acquired through experience. On the other hand, it may weaken the consequences of staff turnover rate. Indeed, loan officer's position may be exhausting. They are often under pressure (Dixon, Ritchie, and Siwale, 2007; Kar, 2013; Sarker, 2013) to contribute to both financial and social performances, these two objectives often appearing as contradictory, what may reinforce the discomfort of some of them. Because of these tensions, loan officers, after some time spent in a microfinance institution, may be demotivated. In this case, renewing demotivated loan officers may be less detrimental for organizational performance.

To achieve our study, we use a database from a microfinance institution active in Latin America. This case study is relevant as turnover is particularly present in this organization with an average annual turnover rate reaching 48%. The database, composed of 3586 branch-month observations, concerns the period from 2008 to 2016. Data from the database were triangulated with data from annual reports and from field observations and interviews conducted in different branches of the institution. Our results from fixed-effect regressions show that the turnover rate of a month negatively influences branch performance of the next month. However, after 4 months, turnover rate does not have negative consequences on performance anymore.

This paper may be useful to microfinance practitioners by showing that managers of microfinance institutions with a high staff turnover rate may establish strategies for managing correctly turnover in the short run, but also for fostering employee loyalty. Our results could also probably be generalized to social enterprises delivering services. Moreover, this study may contribute to the literature in human resource management by supporting the context-emergent theory (Nyberg and Ployhart, 2013) as we show that the consequences of turnover on organizational performance should be analyzed by adopting a dynamic perspective. As many scholars in human resource management claim that timing and duration are important factors to take into account in this field (Gerhart, 2005; Wright and Haggerty, 2005; Call et al., 2015), this paper represents a step in this direction

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