MicroSave Briefing Note # 90

Integrating Social Performance Management into Governance of MFIs

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Background

Today, in light of the global financial crisis, good governance is more important than ever. And the dynamism of the microfinance sector – leading in some cases to rapid growth, commercialisation and transformation, and allegations of over-indebtedness or mission drift – have brought increasing focus to "social performance" and to the role of governance structures in managing the growing financial *and* social risks.

In the face of these challenges, the governance[1] structure of an MFI – which comprises of the board, CEO and/or top management/senior management – has a critical role to play in providing leadership and strategic direction to the organisation. Likewise, it must ensure that an MFI manages risk effectively (e.g. social, reputation and financial) and is accountable to its stakeholders (e.g. funders, staff, clients, community, government etc.).

Observations from various social performance management exercises conducted by *MicroSave* at different MFIs indicate that many a times the Board composition is focused on having experience and expertise in financial rather on social aspects. The Board's role is often not clearly defined with respect to social performance, and hence there is limited scope for active participation of the Board in this area. This is more so when the organisation is transformed from a not-for-profit entity to a for-profit entity with more focus on financial bottom line than the social bottom line. This note discusses the importance of integrating social performance into the governance framework of MFIs and practical strategies to do so.

Good Governance and SPM

Good governance thus extends beyond the fiduciary responsibilities that often are the focus of most MFI board meetings. A more balanced management approach looks at the role that *all* stakeholders have in governance as well as the critical importance of both financial and social performance across all levels of the organisation.

Social performance management (SPM), meanwhile, is an institutionalised process which includes setting clear social goals based on the organisation's mission, monitoring progress towards achievement of them, and using this information to improve performance and practice.[2]

SPM is a cross-cutting issue that requires management and the board to be more intentional about achieving mission-driven social objectives by ensuring a social focus is woven in throughout operations, where appropriate. This requires strong leadership, effective communication and patience – and does pay dividends. Integrating SPM principles throughout an organisation will help the board and/or management: (a) to assess and ensure achievement of mission, and (b) to improve overall performance through knowing its clients, improving products and customer service, ensuring client/staff satisfaction and retention, and fostering a stronger alignment of systems and values.

Integrating the Two – A Practical Approach

SPM thus begins with effective governance – which involves putting an organisation's mission (social and financial) into practice at both the strategy and operational levels. The starting point for such integration would be the Board and senior management asking the following questions:

- What does the Board consider its responsibilities related to SPM?
- What types of trainings do board members receive - to what extent is the social mission and their responsibilities relating to it covered?
- MFIs often have board members who are either only socially-oriented or just financially-oriented.
- How can the board members be trained to understand both the social and financial performance management considerations and see the mutual advantage of it?
- Which stakeholders will be given a role within the MFI's governance system? What would be the role and expectations of each of them regarding the social mission (private investors, donors, clients, governments, etc.)? In what sense the different stakeholders will contribute to balanced performance management?

The United Nations Development Program (UNDP) highlights five key governing principles[3], entailing: ***Legitimacy & Voice, Direction, Performance, Accountability and Fairness.*** These also form the basis for integrating many of the key *social performance* principles at the strategic level.

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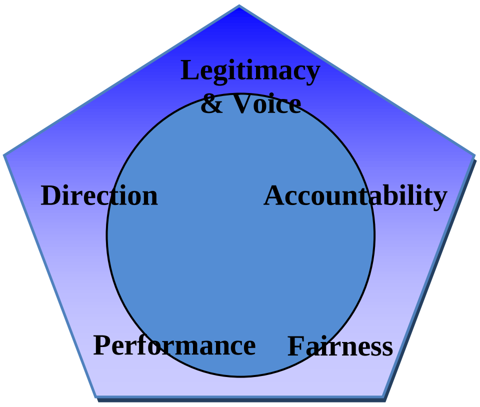
[1] To know more about Governance in MFIs, refer to *MicroSave*'s Toolkit on "Board Governance for Microfinance Institutions".
[2] Campion and Linder. *Putting the 'social' into performance management*. Imp-*Act*/IDS. 2008.
[3] UNDP "Governance and Sustainable Human Development, 1997".



The following are some of the concrete steps that can be taken by MFIs to integrate SPM principles into their governance structure.

Direction

- Get the right skill set and experience to drive the organisation. The board should ideally have people with a mix of backgrounds and who are committed to both financial and social missions.
- Empower the board to participate and contribute towards the guidance, development and safeguarding of the organisation's mission as well as its financial and social assets.
- Create a social performance committee that is responsible for designing and overseeing social performance-related activities. This committee can report directly to the board.

Performance

- Create a 'dashboard' of a few key social indicators (such as client or staff retention levels, customer satisfaction scores, education levels or poverty likelihood of client households, etc.) and adjust the MIS to have easy and objective ways to track social performance. Review these at board meetings alongside financials.
- Conduct periodic reviews of 'achievement of mission' and take corrective steps.[4]
- Work to involve and motivate staff, including appropriate performance reviews and incentives.[5]

Legitimacy and Voice

- Give a role to stakeholders – especially clients or representatives of clients – and encourage their participation in strategic decisions, through periodic client consultative groups, informal feedback from field staff or other forums.
- Ensure mechanisms are in place that allow for regular client and employee feedback (grievance systems, market research, client committees and customer satisfaction surveys, etc.).[6]

Fairness

- Design and develop fair and competitive compensation packages, fair and equal employment opportunities for the staff.[7]
- Putting in place client protection measures[8] (preventing over-indebtedness, fraud, abusive collections, client privacy, etc.)

Accountability

- Having in place a code of conduct to ensure accountability to all stakeholders.
- Developing transparent policies and communication (of pricing/terms, portfolio data, etc.) to facilitate the free flow of information across various levels of stakeholders.

Governance and SPM

MicroSave has worked with Imp-*Act* to integrate a social lens into its Governance training. At a recent training in Delhi for small and nascent MFIs, the senior management and the Board felt that the social performance measures are what helped them stand out in the competition and gain loyalty for their microfinance initiative. The Board emphasised on the importance of the inclusion of the social performance indicators at all levels - from Governance to Operations - to understand the working and the impact of the work of the institution as a whole.

Conclusion

The benefits of integrating SPM principles into the governance structure of MFIs are manifold. Not only will it help the board and management to understand whether the organisation is achieving its mission and better balance both financial and social goals, but it will also help to align and improve systems, mitigate reputation and political risk, and ultimately improve overall performance and ensure financial stability.

However, it is easier said than done. Orientation and training to the board members can go a long way in building appropriate governance capacities and ensuring that key actors both know, and are able to fulfil, their roles properly. Furthermore, it is critical that voices at the top build and sustain the appropriate – and *balanced* – performance culture, as well as putting in place the right incentives and review mechanisms to ensure strong and effective governance and social performance in an MFI.

[4] See *MicroSave*'s "Social Performance Management" Toolkit.
[5] See *MicroSave*'s "Designing Staff Incentive Schemes" Toolkit.
[6] See *MicroSave's "*Market Research for MicroFinance*"* Toolkit.
[7] See *MicroSave's* "Human Resource Management" and "Advanced Human Resource Management" Toolkits.
[8] For more details, refer to www.smartcampaign.org.