

MicroSave Briefing Note # 89

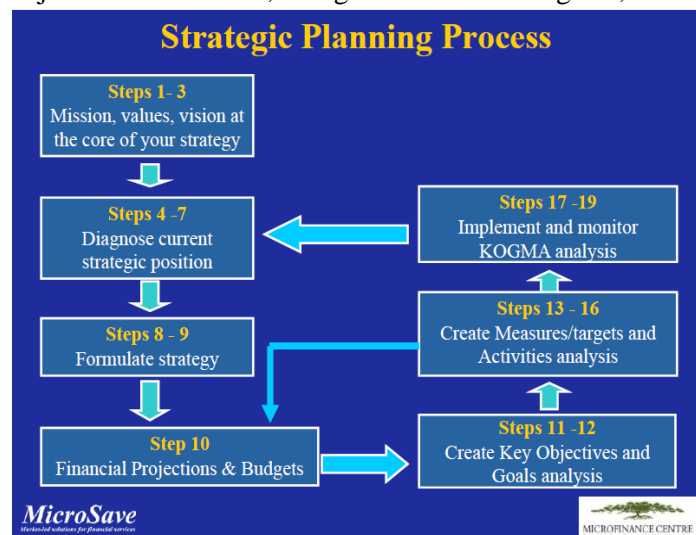
Integrating Social Performance Management into Strategic Business Planning of MFIs¹

Veena Yamini A. and Matt Leonard

August 2010

Creating Sustainable Customer and Stakeholder Value

A balanced view of performance management involves the inclusion and integration of an institution's social objectives and values, alongside its financial goals, into the very fabric of its DNA. In microfinance, this begins by



placing appropriate emphasis on social aims in an MFI's guiding document: the strategic business plan (SBP). An SBP exercise, typically undertaken by board members and senior management, sets the strategic direction for an MFI over the long term. Much more than financial projections, an SBP lays out the goals, key objectives, measures/targets and activities of an organisation (KOGMA) and is ideally undertaken every 3 to 5 years depending on the growth plans and market conditions.

Effective social performance management (SPM) consists of (re)designing key operational policies, processes and systems to reflect an MFI's social aspirations – rather than considering it as a separate, stand-alone set of activities (or department). To do so, SPM should be closely integrated into each SBP exercise.

Integrating Social Performance Management into Strategic Business Planning

Steps 1-3: Mission, Values, Vision at the Core of your Strategy

The **Mission** statement of an organisation (re)defines why the organisation exists, whereas **values** give the principles on which the organisation functions. The **vision** is a 'big audacious goal' of where the organisation wants to head in the long term. This is precisely where SPM in MFIs begins: by spelling out "who you want to reach (outreach), how you plan on serving target clients (methodology) and what benefits you want to create for clients (change)".² It is here where the motivating force behind an organisation, its beliefs and aspirations should be clearly articulated. Achieving the delicate balance between achieving social aims and ensuring commercial viability can be overcome by carefully reflecting (and measuring!) *both* aspects in an organisation's strategy and activities. An MFI's mission should be re-evaluated when strategic priorities shift, and an SPM assessment exercise is often useful to evaluate *achievement* of mission and spell out the concrete steps necessary to re-align one's mission and to prevent 'mission drift'.



Steps 4-7: Diagnose Current Strategic Position

Diagnosing a strategic position involves conducting: (a) market analysis, (b) competition analysis, (c) institutional analysis and (d) sector analysis. This helps to analyse where an MFI stands and to how differentiate itself from competitors. SPM can be reflected in a market analysis by analysing/verifying if an MFI is reaching its target clients, and by understanding the client's needs/preferences by using market research tools or informal feedback mechanisms. Competition analysis can include benchmarking other MFIs to know, for example, how they treat their staff and what services they offer clients. These aspects – when coupled with an institutional analysis that looks critically at how one's own MFI fares when it comes to staff satisfaction, client protection or customer 'delight' – could provide insight into ways an MFI can gain a competitive advantage. This may involve redesigning staff incentives; recruiting more women; refining targeted internal processes as part of a new IT strategy; offering different products; preventing over-indebtedness or providing friendly customer service to build stronger client relationships. Similarly, some environmentally or community-conscious organisations may restrict funding with environment damaging businesses (stone cutting, etc.) or consider offering non-financial activities (e.g. health or financial education).

¹ This Briefing Note is based on the MicroSave's [Strategic Business Planning](#) and [Social Performance Management Toolkits](#).

² Campion and Linder. "Putting the 'Social' into Performance Management", *Imp-Act/IDS*, 2008.

Steps 8-9: Formulate Strategy

Formulating an institution's strategy while using a social lens, involves choosing both social and financial goals and providing a clear road map on how to achieve them. For instance, some of the strategies with dual goals can clearly include: which markets to serve (based on the income levels or gender or geographies); how to serve them (solidarity group, centre-based or individual); what value proposition is being offered – quick service, professionalism, customer-friendly, safety and security; and designing products or services to meet clients financial (top-up, emergency, etc. and non-financial needs (livelihoods training, financial literacy, providing health care, etc.)

Step 10: Financial Projections and Budgets

Financial projections should be equally aligned with social objectives and related expenses – e.g. conducting market research, redesigning an MIS with social indicators, conducting an SPM assessment, etc. This step will help an MFI to analyse if its SPM strategy can be implemented with available resources or needs modification.

Steps 11-12: Create Key Objectives and Goals Analysis

This step requires designing clear social objectives and goals that are SMART (specific, measurable, achievable, results-oriented and time-bound) and linked to mission and strategy. A Key Objectives (or critical success factors) and Goals Analysis links an organisation's SPM-related strategies (client protection, customer service, staff satisfaction) to work-planning and helps to formulate the steps necessary to ensure that an MFI's core systems (HR, MIS, Internal Audit, and Operations) include a social perspective. It will help MFIs not only in designing specific activities, but also in monitoring both social and financial performance on a regular basis.

Step 13-16: Create Measures / Targets and Activities Analysis

While selecting the measures or targets, organisations should include those that reflect the achievement of its social goals and objectives. For instance, for a customer service goal/objective, an MFI may select targets like: client retention rates above 85%, or an average score of 4 or more on client satisfaction surveys. For staff satisfaction targets may include: staff retention of 90% or product development "introduction of X# of new products". Such measures or targets are critical and will help organisations to measure both social and financial performance and thus indicate achievement of mission. Likewise, with clear social objectives and targets, an MFI can then spell out the concrete steps and activities required for implementation. Ultimately, "what gets measured gets done".

Steps 17-19: Implement and Monitor KOGMA Analysis

KOGMA (Key Objectives, Goals, Measures, Activities)/ Goals Analysis can be used to drive organisational alignment from top to bottom, through the process of *cascading*. This step is even more important in organisations with social goals, since achieving long-term social outcomes are often less visible. Effective SPM strategies thus require focused, initial efforts and very good collaboration at all levels across the organisation. Creating the right institutional culture, balancing social and financial aims, involves strong leadership and communication. Proper implementation and, critically, *monitoring* of the SBP and KOGMA analysis will help organisations in balancing overall performance management – both social and financial. A successful KOGMA analysis:

- has a mix of financial and social measures
- creates an environment conducive to motivating staff
- enables communication of objectives and targets:
 - describes the organisation's vision
 - gives an overall picture of the strategy
 - shows staff where to contribute and where to focus
- allows monitoring of progress towards goals and thus key objectives

Conclusion

Ultimately an organisation's strategy, and indeed strategic plan, boils down to one thing – how to add value to its customers in a sustainable way to ensure both business and social success. Integrating SPM into an MFI's operations systematically begins with a holistic SBP exercise, linking social goals, objectives and activities to an organisation's mission and strategy. The tracking achievement of the same will surely help to ensure achievement of both.

MicroSave has run its SBP process in over 100 MFIs across Asia and Africa including several of the leading NBFCs in India and the top tier MFIs in the Philippines, thus allowing those MFIs to better balance their double bottom lines and assess the clear synergies between excellence in market-led financial services and social performance. Many of these MFIs have seen sustainable, triple digit growth because they address both financial and social objectives.