5. SOCIAL PERFORMANCE MANAGEMENT IN MICROFINANCE[1]

INTRODUCTION TO SOCIAL PERFORMANCE MANAGEMENT

Achieving Social and Financial Performance

In the microfinance arena, performance has long been associated with financial outcomes measured by loan portfolio quality, cost recovery, and profitability. With significant investment of talented minds, committed organizations, and donor dollars, the measures of financial performance have been tested, revised, refined, and largely standardized across the industry. Yet such progress in measurement, though considerable, tells only half of the performance story in microfinance. Most microfinance institutions (MFIs) strive to meet interrelated financial *and* social goals, managing a double bottom line where strong financial performance facilitates the fulfillment of a social mission. Social performance is effective translation of an institution's social mission into practice. Monitoring and assessing social performance is emerging as a vital activity in the industry as practitioners increasingly acknowledge that achieving the social outcomes inherent in their missions requires more deliberate strategies and more systematic monitoring.

Understanding Client Preferences and Needs

The renewed interest in the social goals of microfinance is part of a historical shift in industry practice from a nearly exclusive focus on the financial performance of institutions to a more active concern for their clients. This shift is marked by a surge of interest in various types of impact assessment, market research, and product development, all directed at improving understanding of clients and how to best serve them. Historically, each client's repayment record is closely tracked, but little is known about how she managed to repay the loan or how she gained from it. Such knowledge would likely influence operational and product decisions in her favor. As the industry matures and grows more competitive, retaining clients and attracting new ones increasingly depends on the MFI's ability to meet client needs and help them make the most of the institution's products and services. In microfinance, social performance and financial performance are linked and mutually reinforcing. Those who pay attention to their mission to improve the lives of people are likely to improve their financial bottom line as well.

Managing Social Performance

Social goals are certainly not new to microfinance. Microfinance has for years worked to empower women, alleviate poverty, or support community development, to name but a few such social goals. Yet less emphasis has been given to monitoring progress toward this achievement. Imp-Act has embraced **social performance management (SPM)** as the systematic assessment of performance relative to social objectives and use of this information to improve practice. SPM encompasses the renewed focus on clients within

1. This chapter of the Social Performance Map is excerpted from the document "Social Performance Management in Microfinance: Guidelines" published by the Imp-Act Consortium. To read the complete document, go to http://www2.ids.ac.uk/impact/support/guidelines.html. For Imp-Act Consortium practice notes on SPM, go to http://www2.ids.ac.uk/impact/support/practice_notes.html.

microfinance (e.g., market research, client assessment, product development, customer service etc.). SPM as yet has no precise parallel to the widely accepted systems for measuring and managing financial performance. These guidelines introduce a framework that manages the steps necessary to achieve the social mission. It details methods for regularly monitoring and assessing effectiveness in defining and reaching target clients, in providing clients with services appropriate to their needs, and in achieving the changes in clients defined by the social mission. It also looks at how information can be analyzed and findings communicated so that MFIs can make corresponding adjustments to products or service delivery and strategy.

The Core of Social Performance Management

At its core, SPM helps an MFI build a better understanding of who its clients are and how they use and benefit from the institution's products and services. Such information is critical to the MFI's ability to demonstrate programmed impact for a range of stakeholders and improve programmed services. Understanding how clients interact with the programs improve operational and product decision making in response to their needs and preferences.

There are six key questions to consider before implementing SPM. These questions incorporate not only the collection of information, but also its use. Consequently, some of the questions below target clients and client behavior while others focus on how the MFI will use that information in its daily operations and in strategic planning.

1. What are your social objectives and how do you seek to achieve these?

By clearly articulating its social objectives and strategies the MFI will be able to tailor its services to its clients' needs and monitor the extent to which these services are meeting its objectives. Attaining social objectives does not happen haphazardly. Like financial objectives, they require a deliberate strategy and a conscious effort to monitor its implementation.

2. How do you monitor who uses, and who is excluded from using, your services?

Clients' needs and programmed participation often differ depending on their age, sex, level of education, and type of business. Matching clients' demographic characteristics to the services they use is valuable information for adapting and/or diversifying products and services in response to distinct market segments. There are many ways to group or categorize clients; in addition to the specific categories, it is important to determine how each category is represented in the overall portfolio. It can also be useful to know who, within the target market, does *not* participate, and why. Such information may suggest adjustments to existing services or even new ones that will attract these potential clients.

3. How do you monitor and understand the ways in which clients use your services, whether or not their needs are met, and why some clients leave or become inactive?

A wide variety of factors can influence a client's decision to stop borrowing, leave her savings account dormant for long periods, or withdraw from the programs. Some factors are not related to the work of the programs. The client's business may be well enough established that she no longer feels the need to borrow, personal issues or illness might be temporarily preventing her from running her business, or there may be periods of inactivity according to the season. However, other explanations—such as dissatisfaction with some aspect of the program or preference for another MFI—should sound an alarm for management. They are an indication that the existing program is not meeting clients' needs in some way; left unaddressed, the rate at which clients leave is likely to increase, negatively affecting both financial and social performance.

The connection between client retention and overall performance—both social and financial—is an area of increasing concern for MFIs. Beyond client satisfaction, exit rates can also be an important indicator of social performance. If clients are leaving because they cannot afford to stay, the MFI is probably not achieving the desired impact on their livelihoods. Clients who leave the program in the aftermath of external shocks (e.g., natural disasters, accidents, illness) were probably highly vulnerable in the first place, again an indicator that impact may be limited.

On the financial side, losing established clients is expensive because they have to be replaced with new borrowers who cost significantly more to recruit, orient, and assess. Close monitoring of clients who leave is a key to managing and minimizing this costly trend. Exit surveys can reveal clients' satisfaction with the products and services, and help the MFI adjust to improve its benefits and impact.

4. How do you monitor and understand the effect of your services on current clients?

What changes are clients experiencing? Are their incomes increasing? Are their businesses growing? Is their nutrition improving? Is their poverty status changing? These questions reflect a tiny sample of the possible indicators of client status—practitioners must choose those that most appropriately measure progress toward their institution's specific social objectives. Once selected, regular monitoring is recommended to get a sense of the changes that are, or are not, occurring over time. It will also help clarify the process by which change occurs: are the changes limited to particular branches or linked to a particular product? Such information can help identify programmatic strengths to reinforce or weaknesses to correct.

Routine monitoring of client status through regular collection of data is only part of the process. On its own, monitoring generally does not explain *why* the observed changes have taken place, nor the extent to which they can be attributed to the MFI. In addition, it may not be sufficient to identify market trends, or economic changes that affect the way microentrepreneurs do business or their financial strategies for loan use. These more complex aspects of client behavior and programmed impact require more rigorous research that most institutions undertake only periodically. SPM includes both routine monitoring and more intense follow-up research.

5. How do you use social performance information to improve your services?

Collecting information on the questions above is only helpful if it is put to use. An SPM system includes a process for communicating the information collected to meet the needs of various stakeholders and inform decisions about operations, products, and service delivery. The vehicles of communication can range from analytical reports prepared for specific decisions to more informal processing of observations. Social performance data can be presented to the organization's board, it can be used to demonstrate programmed effectiveness to donors, it can be organized into reports that inform the work of special committees, it can be used as the basis for staff incentives, or it can be summarized for regular staff meetings. There are infinite ways to package and present this data, but the way it is used requires planning and attention.

6. How can you improve the systems and processes through which you answer these questions?

SPM is dynamic. MFI objectives, clientele, and context typically evolve over time, and so must the processes by which they are monitored. Periodic reviews of the system, which are an integral part of the SPM process, ensure that the information being collected is both useful and reliable.

Figure 1. Framework for Achieving Social Objectives

INTENT AND DESIGN

What does the MFI seek to achieve?
How are services and performance objectives designed toward this end?

ACTIVITIES

How will services be provided to target clients through a specific organizational structure and designed to reach organizational objectives?

OUTPUT

What services are delivered to whom—breadth and depth of outreach?
What is the quality of service?
Are they sustainable?

OUTCOME/IMPACT

What changes result from the services provided (e.g., business growth, increased income, new skills)?
What are the longer-term sustainable changes produced by these outcomes (e.g., poverty reduction)?
What are the unintended consequences?

BUILDING A SYSTEM FOR SOCIAL PERFORMANCE MANAGEMENT

SPM as elaborated by the core questions above requires a system built on the MFI's social mission and based on clear objectives. It needs to be implemented with defined methods for collecting and analyzing data, and for communicating and using the results. An SPM system offers the organization's staff the means to understand how clients are interacting with the program, to identify how to improve that relationship, and to participate in the analysis of why the program is affecting clients in certain ways.

Looking at Impact Processes

Traditional evaluation has focused on end results, but SPM interprets and manages the whole process by which impact is achieved. SPM's regular monitoring of that process highlights possible adjustments at multiple points along the way to improve practice (see Box 1). Improving programmed practice to be more responsive to clients will ultimately increase programmed impact. The information collected will also serve as evidence of impact to external stakeholders.

Starting Out

All MFIs can design and put into practice an SPM system if they work within their capabilities and keep things as simple as possible. Although SPM systems cannot be standardized or packaged for purchase, they can be built step-by-step, starting with data collection practices that are already in place. Start small, building up the system gradually over time, rather than trying to do too much at first.

THE COSTS AND BENEFITS OF SOCIAL PERFORMANCE MANAGEMENT

An MFI's success is closely linked to the success of its clients. In a context of greater availability of services and growing competition among providers, MFIs that do not meet the needs of their clients will lose them. Those that are focused on and responsive to their clients will retain them, and increase their share of the market. Thus, in microfinance, financial and social goals are mutually reinforcing. Strong financial performance enables an MFI to pursue its social objectives, and achieving social objectives is good for business. Through active monitoring and assessment of client interaction with products and services, SPM helps MFIs to remain faithful to their mission and maximize both sides of the performance coin.

There are costs involved in SPM, but the benefits are well worth the investment over time. SPM will lead to better, client-focused services and organizational culture, more satisfied clients, stronger management, and improved financial performance. SPM serves as the social lens through which all organizational systems can be viewed and aligned.

SPM will help managers

- ***Balance financial and social objectives*** to make better business decisions based on a more thorough understanding of the trade-offs each involves
- ***Generate baseline information*** that is invaluable for more in-depth assessment of social performance
- ***Track performance against targets,*** both social and financial
- ***Identify problems*** at an early stage before they become damaging for the organization

SPM will benefit clients, giving them

- Services more appropriate to their needs
- More product choices
- Better customer service
- A greater "voice" in the programs

SPM will improve outreach, services, and products, enabling the MFI to

- ***Segment its portfolio*** to examine differences in performance by client characteristics, and thereby identify market niches, opportunities, and problems
- ***Monitor how clients use services*** to determine how well they "fit," assessing the appropriateness of its services to the needs of its target clients, as well as how to adapt them
- ***Innovate*** to improve client satisfaction and loyalty through better products, better customer service, and greater flexibility
- ***Verify the results of programmatic changes*** to determine if they have made a difference
- ***Track intended and unintended impacts on clients' lives*** and on the wider community, and understand the role that the organization plays in promoting these changes

SPM will improve financial performance, resulting in

- ***Higher retention of clients*** through monitoring of and responsiveness to their satisfaction with programs. Higher retention rates translate into lower costs and higher profits.
- ***Program growth,*** by making the institution more attractive to potential clients because of demand-driven products and services and word of mouth from current satisfied clients.
- ***Lower operational costs*** as resources are used more effectively based on better understanding of the best investments.
- ***Demonstration of social performance to stakeholders,*** thus improving position in a competitive funding market.

Box 1. A Profile of SPM: Prizma in Bosnia-Herzegovina

In the highly competitive Bosnian microfinance market, Prizma has strategically positioned itself at the low end, targeting poor entrepreneurs, particularly women. Prizma's social performance management system has been tailored to monitor its performance related to three social goals: (1) to deepen outreach to poor women; (2) to strengthen impact; and (3) to ensure the quality of services. It serves 12,278 clients and has an active portfolio of US$8.4 million (as of December 2004). Its average loan size is US$695. Prizma achieved full financial self-sufficiency in 2001, and today it generates an annual surplus in excess of $100,000.

Prizma's social performance management system consists of three core components:

Poverty status monitoring is conducted for all clients on entry and at the start of each loan cycle using a poverty scorecard comprised of seven indicators: education of the head of household, location and size of residence, household assets, transportation assets, meat consumption, and sweets consumption.

Exit monitoring, using a short, semistructured interview, is conducted by field staff twice a year to answer questions such as: Who leaves? What is the magnitude? What are the characteristics of dropouts? Why do they leave?

Focus groups provide information on how Prizma is reaching, serving, and affecting its target market: Which groups does Prizma reach? Which groups are excluded? What kind of products and services should Prizma develop to reach and serve its target clientele?

The management information system (MIS) can generate a custom report that provides aggregate poverty scores for any segment of the client base, or by any of the 30 other variables in the system. The capacity to thus segment its market helps Prizma to achieve the correct design of products and services for its target clientele. It can adjust delivery, price, or other attributes of one or more products to better meet the preferences of any given segment, or pilot a new product in response to a significant need among a large number of clients.

For example, poverty and exit monitoring data enable Prizma to segment its market to identify the characteristics of clients most vulnerable to performing poorly and eventually leaving the program. If these vulnerable clients are strategically important, more attention can be invested in retaining them. If they do not constitute an important group (for example, those clients who "shop" for loans across the market and are less likely to become loyal clients), Prizma can save time and resources on efforts to keep them.

The information also supports the design of staff incentive schemes, delinquency management, business plan projections, and branch performance comparisons. It strengthens ongoing market-research activities, strategic positioning, product promotion, and branding. Focus group discussions enable Prizma to investigate the reasons behind the patterns and trends in client status highlighted by the monitoring data.

The vision for SPM has become a part of Prizma's organizational culture due to the strong support from the board and senior management. Overall, the new system has provided stronger, more timely, and more accurate reporting, tighter internal control, and the ability to manage multiple products and increased scale. All employees are able to monitor branch and loan officer performance, portfolio quality, or other institutional or client data.

Staff access to critical performance data has been at the heart of Prizma's effort to build strong decentralized profit centers, greater staff ownership of and accountability for individual and team results, and consensus for management decisions intended to strengthen both the institution's financial health and its ability to fulfill the mission.

To cover the cost of developing these tools, Prizma estimated that it would need to retain an extra 152 (2.2%) of its group enterprise loan clients for one additional loan cycle—on the assumption that each retained client is worth $278.