

# Embedding Social Performance Management in Financial Service Delivery

After decades of growth and experimentation, financial service providers (FSPs) have learned that to achieve financial inclusion and generate benefits for lower-income clients, they must be customer-centric.<sup>1</sup> Their products should be designed to help the poor improve their lives, and service delivery must be responsible, transparent, fair, and safe. Decision-making at each level of the business should place customers at the center, to ensure solutions add value to people’s lives. Some FSPs have it in their DNA to be customer-centric: their systems, processes, and employees help build loyalty, trust, and long-term relationships with customers. Others find it challenging, especially when serving low-income customer segments.

Many FSPs are looking for practical guidance on balancing financial sustainability with customer benefits, and on client protection. The Social Performance Task Force (SPTF)<sup>2</sup> *Universal Standards Implementation Guide* (the Guide) provides guidance on how to improve strategies, governance, operations, and employee treatment. It is based on a set of industry standards for social performance management (SPM), called the *SPTF Universal Standards for SPM* (the Universal Standards).<sup>3</sup> Figure 1 illustrates the six dimensions of SPM covered in the Guide.

This Brief highlights lessons from the Guide to make the case for SPM and illustrate how FSPs can embed responsible finance practices into service delivery and contribute to healthy market development.

## The Business Case for SPM

SPM is a management style that puts customers at the center of all strategic and operational decisions. SPM begins with a clear social strategy, which is then carried out by the board, management, and employees. Providers with strong SPM design products that help clients cope with emergencies, invest in economic opportunities, build assets, and

manage their daily and life cycle financial needs. Such FSPs also treat employees responsibly and carefully balance the institution’s financial and social goals.

SPM can strengthen financial performance.<sup>4</sup> Providers that understand the needs of their clients and focus on delivering value are more likely to offer what clients want, which in turn, facilitates growth in market share—as clients often choose providers based on reputation, product suitability, and customer service. Improved client data allow for better market segmentation, customer targeting, and cross-selling opportunities. Responsible treatment of customers and employees results in more loyal customers and employees, thereby reducing loss of clients and costly employee turnover.<sup>5</sup> Recent analysis by MIX confirmed that FSPs with higher employee turnover had lower portfolio quality and borrower retention (Pistelli, Pierantozzi, and Vento forthcoming).

Of course, implementing SPM can come at a cost. Delivering tailored services requires investing in processes and systems that can negatively impact productivity. Similarly, serving harder-to-reach and more excluded segments of the market can reduce efficiency. However, while these changes can affect

1 In this Brief the terms client and customer are used interchangeably.  
 2 SPTF is a global association of microfinance stakeholders that develop, disseminate, and promote standards and good practices for social performance management and reporting. [www.sptf.info](http://www.sptf.info)  
 3 From 2010 to 2012, SPTF led the work of developing the Universal Standards, gathering input and testing draft standards with over 400 individuals from every microfinance stakeholder group.  
 4 See industry studies, such as Hoepner et al. (2012) and Gonzalez (2010).  
 5 See, for example, how Kenya Women’s Finance Trust and Pakistan National Rural Support Program generated employee satisfaction yielding loyalty and better service to clients at [http://sptf.info/images/impl%20series\\_ppt\\_english\\_section%205.pptx](http://sptf.info/images/impl%20series_ppt_english_section%205.pptx).

Figure 1. The six dimensions of the Universal Standards for SPM



profit in the short run, in the longer term, they are expected to give the business a competitive edge and a more loyal customer base.

For example, putting systems in place that protect customers can be a smart risk management strategy that can justify the costs and generate new business.<sup>6</sup> A 2013 study found that good practices in pricing transparency, complaints handling, ethical staff behavior, and customer privacy are positively related to higher profitability (Hoepner et al. 2014).

Increasingly, FSP funders seek more than client stories and photos; they demand greater accountability for achieving real social results and reward institutions that can deliver social data. Additionally, as more regulators and policy makers are taking an interest in financial inclusion (Cull, Ehrbeck, and Holle 2014), they are raising the bar on client protection practices, social reporting,<sup>7</sup> and in some cases, actual social outcomes. Proactive FSPs will benefit from staying ahead of these demands.

### From Standards to Practice<sup>8</sup>

All institutions can benefit from improved SPM practices, but no two providers will go about implementing them

in the exact same way. Experiences from a wide range of practitioners, including providers and networks who are SPTF members, demonstrate various entry points to change. Some use SPM to address a particular organizational challenge, such as employee turnover, client dissatisfaction, or failure to reach target clients (see a field example in Box 1). Others start by re-evaluating and strengthening their social goals. And still others assess all of their current SPM practices, using a tool such as the CERISE Social Performance Indicators Tool,<sup>9</sup> before deciding which practices to prioritize for improvement. Based on these experiences, it is best to start with an action plan and take an incremental approach to implementation. Gradual implementation allows an institution to build buy-in among employees, test clients' reaction to changes, and respond more nimbly to changing priorities.

Following the six dimensions of the Universal Standards (Figure 1), FSPs can improve on responsible finance practices by taking steps to do the following:

**1. Define and Monitor Social Goals.** An institution should develop a social strategy that includes a mission, articulation of target clients, clear social

<sup>6</sup> See, for example, how Colombian MFI, Contactar, found that installing a toll-free number for client complaints generated new business. In less than one year, this channel of direct communication with clients generated 193 loan applications, resulting in 51 new loans for more than \$40,000. See <http://www.smartcampaign.org/tools-a-resources/803>

<sup>7</sup> For example, a 2013 regulation in Bolivia requires annual reporting on social performance and defines reporting standards that include a minimum set of indicators providers must report to the regulator.

<sup>8</sup> This section draws on Wardle (2014), which includes a detailed description of methods, tools, resources, and field examples for the implementation of the Universal Standards. Guidance is primarily directed to FSP managers and board, but funders and technical assistance providers may also be interested.

<sup>9</sup> The CERISE SPI4 tool is the most comprehensive data collection and assessment framework for SPM, and is fully aligned with the SPTF Universal Standards. See <http://spi4wiki.pbworks.com/w/page/74245904/SPI4%20Home>.

### Box 1. VisionFund, Uganda (VFU) reduces the barriers to financial inclusion through SPM

VisionFund, Uganda, (VFU) successfully implements one of the SPM practices described in the Universal Standards: *VFU uses its understanding of client needs and preferences to reduce barriers to financial inclusion faced by target clients.*

While VFU aimed for 60 percent of its clients to be women, it missed this target by about 30 percent in recent years. The institution realized that this gap could be blamed on two operational decisions: (1) emphasizing group loans over individual lending, and (2) requiring clients to present land title deeds as collateral.

These decisions created barriers to female clients, as men generally discourage their wives from joining groups, and Ugandan women do not generally hold land titles. Upon recognizing the problem, VFU reversed the balance between group and individual lending and accepted alternative forms of collateral. Eighteen months after tailoring product terms to women's needs, VFU's outreach to women rose to 42 percent of clients.

Source: SPTF Universal Standards Implementation Guide, 2014

goals, targets, indicators, and an explanation of how products and services will benefit clients. Monitoring social data is critical to tracking progress. For example, MicroLoan Foundation in Malawi collects social performance data on clients including information on client poverty levels, food security, reasons for exit, and client complaints. To ensure the accuracy of this data, the institution has protocols for data collection and analysis.<sup>10</sup>

**2. Ensure Board, Management, and Employee Commitment to Social Goals.** FSPs should strive to create commitment to social goals among board members, management, and all other employees. As one method, Juhudi Kilimo in Kenya tracks key social performance indicators<sup>11</sup> and regularly shares them with the board. The board has used the data for strategic decision-making on new products and expansion. In another method, FINCA MFB in Pakistan aligns employee “buy in” to institutional

goals by evaluating field employees on how well they implement FINCA MFB's Customer Care Standards; it measures and assesses staff treatment of clients, how product information is relayed to clients, and staff personal appearance and demeanor.

**3. Design Products, Services and Delivery Models, and Channels That Meet Clients' Needs and Preferences.** Client-centric market research starts with understanding the financial lives of target clients, and then designing products to satisfy those needs. Instead of simply asking clients about their satisfaction with existing products, SPM techniques include gathering information on client behavior, common risks, barriers to access, and economic opportunities. For example, Fonkoze in Haiti uses specially trained employees to perform in-depth interviews on client businesses, family dynamics, economic needs, and new product ideas. Human-centered design is another example<sup>12</sup>—it allows FSPs to learn directly from clients in their own environments and test product ideas with immediate client feedback. Customer-centered design results in high-quality products and services that are well-adapted to clients.

**4. Treat Clients Responsibly.** FSPs should strive to meet the Smart Campaign Client Protection Certification standards,<sup>13</sup> which describe adequate standards for client treatment. For example, FinComún in Mexico reduced its client default rate by 7 percent over one year and improved the institution's reputation among clients following the introduction of its Collections with Dignity policy, which promotes listening to clients and discussing repayment solutions over simple collections.<sup>14</sup>

**5. Treat Employees Responsibly.** FSPs that create a fair, safe, and supportive working environment empower their employees to be better at their jobs. FSPs should have human resource (HR) policies that protect employees and monitor their satisfaction. For example, ESAF India reduced its employee turnover rate by acting on the results of its annual employee satisfaction survey that indicated employees needed reduced working hours to balance work with personal obligations.

<sup>10</sup> To help facilitate and standardize this process for other FSPs, MIX has integrated a minimum set of social performance indicators into its reporting platform. See <http://mixmarket.org/contribute-data>.

<sup>11</sup> Juhudi Kilimo's quarterly SPM report to the board typically includes poverty scores, segmented by new/existing clients; monthly income and expenses; assets financed; client satisfaction results; employee satisfaction results and related financial performance data; new groups, total clients, active borrowers, client monthly growth rate, new male/female clients, and portfolio at risk.

<sup>12</sup> See also McKay and Seltzer (2013).

<sup>13</sup> Based on the seven Client Protection Principles promoted by the Smart Campaign—a global campaign committed to embedding client protection practices into the institutional culture and operations of the microfinance industry ([www.smartcampaign.org](http://www.smartcampaign.org)).

<sup>14</sup> This example is detailed in a Smart Campaign case study: <http://smartcampaign.org/tools-a-resources/48>.

**6. Balance Financial and Social Performance.** Decisions such as growth and profit targets, profit allocation, selection of financing sources, and remuneration of employees must balance financial and social goals. Setting responsible prices and aligning investor-FSP expectations on social and financial returns are critical aspects of achieving this balance. Equitas Micro Finance, in India, was one of the first FSPs globally to transparently set profit policies such that investors know what social and financial returns they can expect. Equitas has a return on equity cap of 25 percent, and allocates 5 percent of the company's profits to social programs, including medical camps, skills development, and schools for clients' children. Some social investors have introduced tools that help FSPs better understand investor expectations. For example, Triple Jump introduced a TJ Interest Traffic Light, which evaluates whether or not an FSP's interest rates and associated profitability are justifiable, in light of the institution's social mission.

## Embedding SPM throughout the Institution

Rather than making SPM a "special project," it is essential to embed it throughout the entire organization. An institution's SPM work plan should be integrated into its strategic/business plan, the board should monitor social outcomes, employees should be held responsible for specific social performance duties, and the CEO should be held responsible for achieving social targets.

AMK—one of the largest microfinance deposit-taking institutions in Cambodia—has an HR system with incentive schemes that take into account outreach and client protection, a dedicated internal research department that focuses on systematic market and social research, and an internal audit department that covers financial and social aspects of client protection and client service. AMK also has a board committee on social performance that ensures that strategy and operations respond to social performance monitoring and research data (MCRIL 2007 and AMK 2014).

This type of buy-in from the entire organization allows new practices to take hold in a lasting way. The Universal Standards and the accompanying Guide help FSPs to build this buy-in and understanding of SPM among managers, so that improved SPM

practices result in customer-centric and responsible delivery of financial services.

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## AUTHORS:

Antonique Koning, CGAP and Leah Wardle, SPTF