Standard 2A

## Members of the Board of Directors hold the provider accountable to its mission and social goals.

**> Essential Practice 2A.1** The provider orients board members on the social mission and goals, and the board's social performance management responsibilities.

**> Essential Practice 2A.2** The board uses social performance data to provide strategic direction, taking into account both social and financial goals.

**> Essential Practice 2A.3** The board holds the CEO/Managing Director accountable for making progress toward the provider's social goals.

**> Essential Practice 2A.4** The board is responsible for preserving the provider's social mission during times of institutional change.

### 2A.1 ORIENT THE BOARD TO YOUR SOCIAL MISSION

In order for your board to manage your institution's social performance, each board member must understand your institution's social goals, and how s/he can contribute to meeting them. A board orientation to SPM should include a comprehensive look at your institution's social strategy,[32] as well as updates on local initiatives (e.g., regulation; national Codes of Conduct) and international initiatives (e.g., the Smart Campaign[33], SPTF).

As a part of this orientation, discuss with your board members their specific responsibilities related to the social performance management of your institution. Such responsibilities include:

- Ensuring that client focus is integrated into your institution's strategic and business plans;
- Reviewing and discussing social performance reports provided by your institution to ensure:
  - Your institution reaches target clients[34]; and
  - Your institution's products and services are appropriate to client's needs.[35]
- Suggesting modifications to the institution's products, operations, or social goals/targets, based on review of social performance information;
- Reviewing Human Resources policies to evaluate social responsibility to employees;
- Ensuring your institution is in compliance with national/regional/ international regulation, including codes of conduct;
- Reviewing and updating your institution's social mission, as necessary

[32] Guidance on standard 1a discusses the social strategy.
[33] For more information, visit the Smart Campaign website.
[34] Guidance on standard 1a discusses the importance of defining target clients.
[35] Guidance on standard 3a and 3b discusses how to understand client needs and preferences and design appropriate products and services.

Confirm that each board member agrees to uphold the responsibilities that your institution specifies. Standard 6b provides further guidance on ensuring that investor board members are aligned with your institution's social goals.

In addition to providing board orientation, consider pairing newer board members with existing ones ("mentors"). Ask the pair to meet one or more times to discuss your institution's history, mission, social goals, and related topics. Board members should visit client businesses and branch offices; understanding the institution's field operations helps the institution's social goals "come alive" to the board.

If you find that your board resists or deprioritizes its social performance responsibilities, consider using the terms "client focus," "responsible finance" and "balanced performance management" instead of "social performance." Choose terms that appeal to the financial orientation of board members, and describe the financial benefits of pursuing social goals. Often, the lack of interest in social performance is based in a misperception that SPM is a costly distraction from prudent oversight of the provider's financial performance.

- The SPTF's *Guiding your Board to Manage Social Performance* is a short guide for financial managers on how to work with their boards to manage the FSP's social performance. The publication will also be useful for board chairs and members as well as for others who work with FSP boards, such as FSP executives and staff, technical assistance providers, or funders.
- The *Handbook on Social Performance for Board of Directors* describes the role of the board in managing social performance, including managing risk.
- *Imp-Act SPM Practice Guide* (Chapter 4) discusses to how to get a board "on board" with SPM, looks at board composition, and the role of leadership. Also available in Spanish and French.
- *Convincing the Skeptic* addresses how to influence board members who are skeptical of the value of SPM.
- MicroSave's *Reinforcing the Role of the Board in Social Performance Management* documents ASKI Philippines' extensive efforts to formalize their board's role in managing social performance.

### FIELD EXAMPLE 17. NWFT ORIENTS THE BOARD ON SPM

Negros Women for Tomorrow Foundation (NWTF) (Philippines) hired an external consultant to orient the board on SPM. The consultant used two overhead projectors for the orientation meeting. One projector showed NWFT's social performance goals and indicators, and the other projector showed NWTF's plans and activities to achieve each goal.

Viewing the goals and the plans for achieving them side-by-side allowed the board to easily understand what NWFT wanted to accomplish and what activities it would undertake to address social performance goals. The board was very responsive to this presentation, and it was motivated to participate in setting SPM goals and activities. Specifically, the board helped to formulate NWFT's "80-50-30" social performance target: the institution targets 80% of new clients living below poverty line upon entry, 50% of those clients show a positive change in their economic poverty level after three years in the program, and 30% of those clients move above the poverty line after five years in the program.

## 2A.2 REVIEW SOCIAL PERFORMANCE DATA AT THE BOARD LEVEL

Many boards view their role as primarily financial, and as such, they focus on corporate oversight and fiduciary responsibilities. However, this attitude creates a gap between the provider's purpose (benefiting clients) and the board's management priorities. Your board should adopt a balanced approach to performance management, drawing on both social and financial information. To achieve this balance, the board must:

- Have on-going access to social performance information;
- Use this information to make decisions; and
- Understand how social and financial performance can reinforce one another.

Provide your board with regular social performance reports which contain data on the institution's social goals. Ensure that these reports present information that is needed by the board to fulfil their SPM responsibilities.[36]

### *Report contents*

Report social data that is important to your board.[37] Decide on the content of the report together with your board. This will promote buy-in and facilitate improved decision-making. The report contents should include:

- Outreach to target clients[38]
- Social indicators that measure progress toward social targets[39]
- Client retention[40]/feedback data or satisfaction surveys/exit survey data
- Client protection risks and practices[41]
- Employee retention and satisfaction/effectiveness of HR policies[42]
- Growth targets vs. actual growth and data/discussion on "responsible growth"[43], and
- Profit allocation and data/discussion on "responsible prices and profits"[44]

[36] Guidance for standard 2a discusses board SPM responsibilities.
[37] Chapter 2 of this guide, How to use social performance data for decision-making, describes how your institution's decision makers (the board and senior management) can use social performance data to inform operational and product decisions.
[38] Guidance for standard 1a discusses defining your target clients. Guidance for standard 1b discusses disaggregating client data based on target client characteristics.
[39] Guidance for standard 1b discusses social indicators that measure progress toward social targets and measuring progress toward poverty reduction goals.
[40] Guidance for standard 3a discusses measuring client satisfaction and client retention.
[41] Guidance for standard 4a to 4d discuss client protection risks and practices.
[42] Guidance for standard 5c discusses employee satisfaction and employee retention. Guidance for standard 5a discusses Human Resources policies.
[43] Guidance for standard 6a discusses responsible growth.
[44] Guidance for standard 6b and standard 6c discuss responsible prices and profits.

The report can integrate (or have as an annex) any independent information on the above (e.g., from Internal Audit or independent external assessments, such as audit/rating).

Consider a dashboard report that includes thresholds that trigger decision points around key indicators. In the report, provide a mix of short-term indicators (e.g., client retention by month; progress toward client outreach goals by quarter) and long-term indicators (e.g., change in client poverty levels over two years; results of annual employee satisfaction survey). Together with the board, decide which short-term indicators are relevant to their decision-making timeline and are sensitive enough to provide early warnings.

Think beyond quantitative information. Qualitative information adds richness to data by giving an insight into the reason behind trends (e.g., provide client exit rate numbers, bolstered by data such as narrative answers from focus groups with exiting clients). Segmented information is also a powerful tool for comparative analysis, allowing your board to understand performance variations between different groups/products/branches in relation to key issues (e.g., client exit or level of satisfaction segmented by region, main products, or business type).

If these indicators are new to your board, work with them to learn how to understand and interpret social performance data. Start with a simple report that provides concrete information about the institution (e.g., client satisfaction data, employee retention rates, % female/male clients). Discuss the report, and allow the board to discover how the information is useful for decision-making. Use the same report format for several meetings in a row so that members become accustomed to reading the report. Then, discuss with board members how your institution might improve the SPM report to make it more useful for the board.

### *Report frequency*

Provide an SPM board report at least annually, and as frequently as is necessary to ensure the board has relevant and timely information needed for decision-making. SPM should be on the agenda at each board meeting, regardless of how often data are provided to the board. Eventually, you should provide an integrated report with social performance alongside financial performance, for each board meeting. Additionally, the board should establish a set frequency (e.g., annually) to review your institution's strategy—particularly the social goals and products/services—and make any changes based on the institution's changing priorities, if necessary.

### *Give members specific responsibilities*

Review the activities and mandate of the existing board committees to analyze whether social performance is adequately covered. If it is not adequately covered, consider adding a designated SPM committee. Whether you do so will depend on the extent to which this will marginalize or strengthen the SPM agenda within your particular institution.[45] Potential SPM committee responsibilities include the following: ensuring the credibility of SPM information; engaging employees at all levels in SPM; prioritizing SPM issues to be addressed by the board and management; drawing in relevant expertise for SP research and analysis; and proposing corrective actions for social performance risks identified by the board.

At Khushhali Bank Microfinance Ltd (Pakistan), board members receive an orientation on SPM and terms of reference that include these responsibilities: regular review of mission compliance from a risk management perspective, discussion of social performance results and social performance related risks (based on social data provided to the board), review of client protection practices (also based on social data), and appropriate growth/profit allocation.

[45] Some providers have found it best to spread SPM-related issues among various board committees so that SPM is integrated into all types of board decisions and activities. Other providers have found that having a designated SPM committee helps social performance issues to achieve equal status to financial performance issues.

FIELD EXAMPLE 18. **KHUSHHALI BANK REPORTS USING A SOCIAL DASHBOARD**

The report on this page is a sample of one of the quarterly "Social Dashboard" reports reviewed by the board and management.

# SOCIAL DASHBOARD

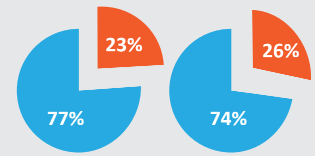
(September - 16)

**Khushhali Microfinance Bank**

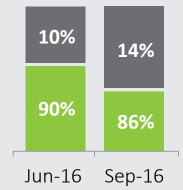
CERISE · the smart campaign · mix · SocialPerformance TASK FORCE

## OUTREACH

**FEMALE/MALE (FOR JUN & SEP)**



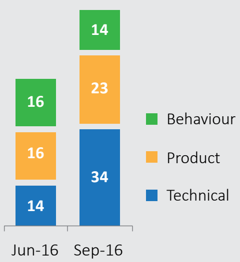

**RURAL/URBAN**



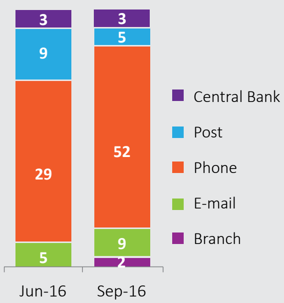

| CLIENT RETENTION |
|---|
| Jun-16 |
| 67.12% |
| Sep-16 |
| 75.54% |
| Target (Sep) |
| >74 |

## SERVICE QUALITY & PRODUCT DIVERSITY

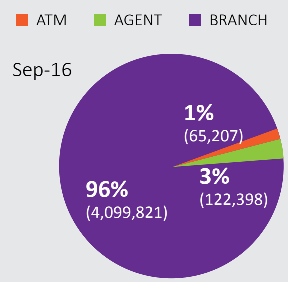
**COMPLAINTS**



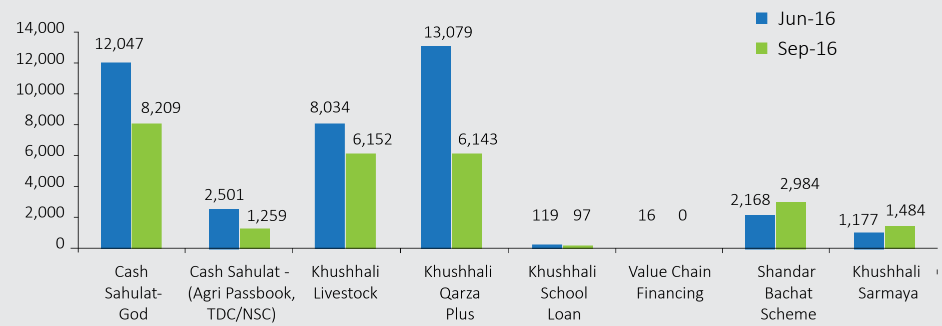

**CHANNEL OF COMPLAINTS**




**DIVERSE DELIVERY CHANNELS (No. of Transactions)**




**DIVERSE PRODUCT SUITE**

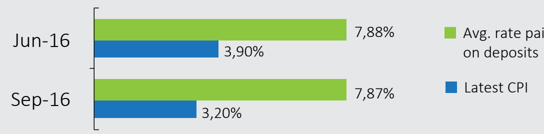



## SPM PRACTICES (SPI4 SCORES)

**USSPM/CPP RESULTS**


## BENEFITS TO STAKEHOLDERS

**DEPOSIT RATE V INFLATION**




| SHAREHOLDERS | Jun-16 | Sep-16 | Target (YE) |
|---|---|---|---|
| ROA (Return on Assets) | 3.19% | 2.75% | 3.20% |
| ROE (Return on Equity) | 21.42% | 18.56% | 20.00% |

| EMPLOYEES | Jun-16 | Sep-16 |
|---|---|---|
| Attrtion Rate (Annualized) | 21.55% | 21.73% |
| No. of Promotions | 96 | 186 |

## DEVELOPMENTS IN 3RD QUARTER

**Reported social data to national network (PMN) for their Social Performance Country Report.**

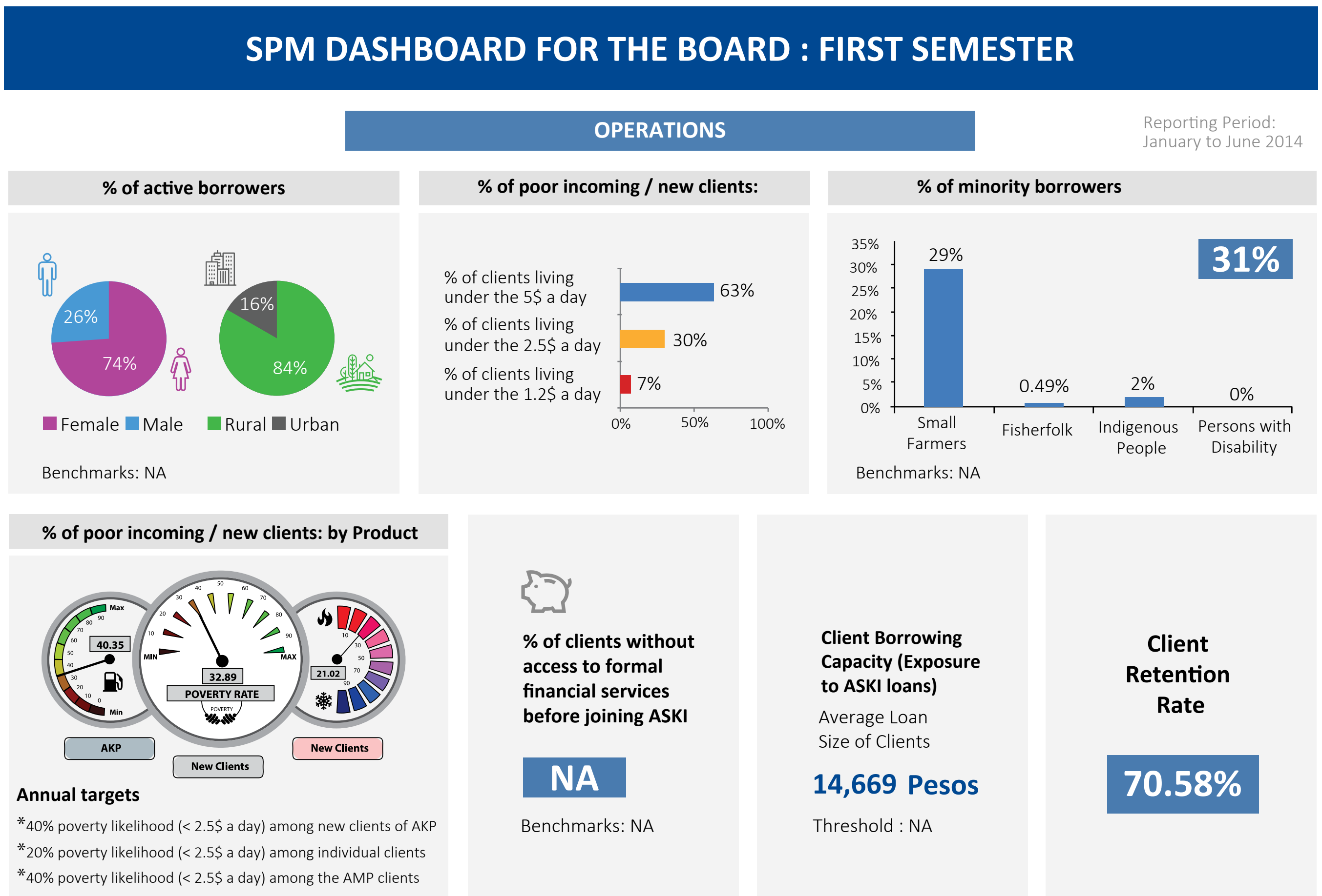
- Preparing Application and conducting due diligence for becoming an Accredited National Implementing Entity (ANIE) of the United Nations Framework Convention on Climate Change (UNFCCC)'s Green Climate Fund
- Engaged IFC approved vendors such as SRE (Sustainable & Renewable Energy) Solutions for development of Green Products & consideration of Renewable Energy adaptation in infrastructure.
- Preparation for Smart certification early next year. Agreement has been vetted and signed.

## FIELD EXAMPLE 19. ASKI USES A SOCIAL DASHBOARD FOR BOARD REPORTS

With technical assistance from *MicroSave*, ASKI (Philippines) developed a set of social indicators that the FSP tracks on an ongoing basis. The board reviews the indicators in a highly visual dashboard format as shown below.

Read the full case study here.

Figure 2: The SP Dashboard for the Board




## FIELD EXAMPLE 20. FUNDACION GENESIS EMPRESARIAL REPORTS TO BOARD ON SPM PROGRESS

After learning about the Universal Standards and integrating social performance into their overall strategic plan, Fundación Génesis Empresarial (Guatemala) created a unique "traffic light" system for tracking their SPM implementation efforts. The traffic light uses the colors green, yellow, and red to indicate the following:

- **Green**—the institution currently implements all of the Essential Practices for the standard, and this implementation is well documented and verifiable;
- **Yellow**—the institution has already begun planning for or piloting the implementation of the standard (e.g., a strategy exists but has not been implemented); and
- **Red**—the institution has not yet considered how to implement the standard.

Though the board has requested quarterly updates, Fundación Génesis Empresarial will realistically update the traffic light once or twice a year, as part of the annual planning process. This updating process will help the FSP to evaluate which practices are strengthening, which are weakening, and which the FSP can focus on for the coming year. The updates are shared with management and the board.

### *Highlight the risk management implications of SPM*

Many aspects of SPM need to be integrated into your risk management strategy: a failure to deliver positive outcomes for clients will lead to client exit (if the products and services are not helpful, why would clients keep using them?); failure to protect clients will have similar negative impacts and will lead to reputational damage. Conversely, clients who use products and services that help their businesses thrive and improve their well-being are more likely to recommend the provider to their peers, remain clients in the long-term, and be able and willing to repay loans. Table 13 offers some ideas of common social performance risks.

Ensure that board discussions about risk include this client perspective. To make this practical for board use, segment client data according to characteristics that highlight clients who are most at risk. For example, segmenting exit clients by loan cycle may show that the majority of exit cases happen in the first and second cycles, which is highly costly for the provider, as the recruitment investment is not recovered.

When an external evaluation showed that IDEPRO (Bolivia) was not achieving the expected results for its target clients, the FSP started a special program called *Pro-Cadenas*, which offers business development services alongside credit, with services tailored to the economic and market characteristics of five key business sectors.[46] The program was a big investment, and failure represented a huge risk for the FSP. The IDEPRO board and management closely monitored key client business outcomes over time and found that *Pro-Cadenas* clients generally were achieving good results in all sectors except one: tourism. Management therefore decided to stop offering *Pro-Cadenas* in the tourism sector. In this case, social performance data helped the FSP modify their offering before suffering losses.

### *Consider effects on clients*

The board should review every decision in light of how it will affect clients. This check may be as simple as asking: "how does this decision affect clients?" before choosing a course of action. The board should decide on the best way to introduce this check. For example, one board member might be in charge of raising the issue, or each board agenda might include time dedicated to the "client check." With time, the board should naturally begin to raise and discuss the positive and negative effects of decisions on clients.

- The SPTF's publication *Your Board's Social Responsibilities: Guiding your board to manage social performance* is a short overview on how to improve your board's SPM related work.
- Imp-Act's Risk Management Guidance Note discusses how SPM can be used as a risk management tool. Also available in Spanish and French.

[46] Adapted from the SPTF's *Making the Case for Outcomes Management to Financial Services Providers*. Read IDEPRO's full case study. Also available in Spanish. Read IDEPRO's full case study.

## FIELD EXAMPLE 21. SÈVIS FINANSYE FONKOZE SPM COMMITTEE CHARTER

Sèvis Finansye Fonkoze's (SFF) (Haiti) Board SPM Committee is responsible for ensuring that "an appropriate SPM system is in place to support the Board's overall stewardship responsibility and the discharge of its obligations to the shareholders and clients of SFF." The following committee requirements are outlined in SFF's SPM Committee Charter.

**RESPONSIBILITIES OF THE COMMITTEE**

The committee has the following responsibilities:

- Orient new board members on SFF's social mission, goals and related metrics;
- Create and maintain a three-year SPM strategy for SFF, which includes SFF's mission and social goals and output and outcomes indicators and related performance targets;
- Provide input on: staff incentives related to social performance; client targeting; product development processes and proposed (new) financial and non-financial product/service offerings as they relate to SPM; and financial product/services pricing, effective interest rates and transparency of the same;
- Ensure the CEO Performance Management process includes SPM metrics;
- Monitor social performance related risks (mission drift; reputational risks; client exit; barriers to financial inclusion for target clients);
- Monitor relevance, quality and adequacy of data produced from SFF's management information systems related to SPM;
- Review analyses of client outcomes, client product usage, client satisfaction/complaints, client retention/exit and proposed product/delivery/channel changes based on such analyses;
- Engage in direct contact with clients on behalf of the Board, through field visits or meetings with client representatives;
- Update the Board on social performance issues and developments occurring globally within the microfinance industry;
- Provide input to the Board regarding profit allocation as applicable;
- Provide the Board with recommendations regarding the prevention of institutional mission drift during changes in ownership structure; and
- Liaise with internal or external parties who may be engaged in the social auditor rating of SFF, or other similar assessment of the institution.

**COMPOSITION OF THE COMMITTEE**

The Committee consists of a minimum of three Directors elected annually by and from the Board of Directors as well as up to two additional individuals who are not members of the Board who bring skills/experience relevant to SPM. SPM Committee meetings are held as required but at least twice per year.

- AMK Cambodia's Social Performance Committee (SPC) is a board committee put in place to safeguard AMK's social mission as the organization works toward financial sustainability. This video documents their efforts.
- Chamroeun Microfinance (Cambodia) SPM Committee Terms of Reference provide an example of how to structure an SPM Committee.

## 2A.3 EVALUATE THE CEO ON SOCIAL PERFORMANCE

Board evaluations of the CEO/Director should be based on the financial performance and the social performance of your institution. The board should take the evaluation criteria directly from the social targets established in the social strategy.[47] Example evaluation criteria include:

- Institution serves target clients;
- Institution meets client retention targets;
- Institution meets client satisfaction targets;
- Institution makes progress toward achieving its social targets, as measured by the social indicators that the institution tracks;
- Institution meets employee retention targets;
- Institution implements an SPM action plan within a given time period; and
- Institution responds to issues highlighted in market research report by modifying a product or service.

Kashf Foundation (Pakistan) sets many social key performance indicators (KPIs) for its Chief Operating Officer (COO). In fact, most of the KPIs have both a social and financial component. Kashf does not distinguish between the two, which reflects the FSP's belief that social and financial performance are complimentary. For example, part of achieving 80% annual client retention and PAR 30 under 1% is using client surveys, exit interviews, and complaints data to improve the client experience. Other KPIs include 86% annual staff retention, development of HR policies that improve employee work-life balance, and addressing hiring issues when the rate of females to males drops below 50% for a specific staff position. These and other staff and client-facing KPIs ensure that the COO is focused on balanced performance management.

The board's evaluation of the CEO/Director should determine how s/he is compensated (salary and bonuses). The board should take corrective action if the CEO/Director achieves positive financial performance (e.g., meeting profitability targets) but demonstrates poor social performance (e.g., failure to meet many of the institution's established social targets).

## 2A.4 PRESERVE THE MISSION

YYour board should safeguard the institution's social mission at all times, but particularly during periods of major change that make your institution vulnerable to "mission drift" (e.g., serving relatively wealthier clients over time).

### *New investors*

Before accepting a new investor or donor, the board and management should consider:[48]

- whether the investor has already made a commitment to, or is likely to commit to your institution's social goals; and
- whether the investor brings experience and/or resources for social performance

Non-profit providers generally have more freedom to choose board members that represent the institution's values. For-profit providers have to balance the need for capital with the desire to bring in investors that reflect the providers values. Nonetheless, all providers should be careful when considering a new investor or donor, to avoid bringing in a stakeholder who could steer them away from their mission. Some providers have declined donations and investments because they came from organizations whose interests were not aligned with their mission. Even if interests between your institution and new investors seem to align, you should include performance expectations in shareholder agreements.

[47] Guidance for standard 1a discusses how to set social targets.
[48] The guidance for standard 6b discusses how to align investor and FSP expectations on social and financial performance.

### *New products, target clients, and/or geographic expansion*

Your board should protect the institution's social goals when making decisions about new products and outreach to new target clients and geographic areas. They should consider both the commercial and social implications of such decisions, and they should use client data during the decision-making process. For example, if the board is deciding whether to add or adjust a savings product, they should consider what percentage of clients are currently saving, over time. If the number is low (i.e., only a small percentage of clients are savers) this suggests that the current saving product is a "finance-only" decision meant to generate capital for the institution rather than to address the multiple needs of clients. Additionally, if average savings balances are higher than average loan sizes, it might suggest that the current savings product does not meet the needs of the majority of target clients. Using relevant indicators, your board will be well-positioned to ask critical questions about the social impact of their new product decisions.

Similarly, when deciding whether to pursue new target clients and/or a new geographic area, the board must question whether the institution already understands the needs of the new group, and if so, whether the institution is well-placed to serve those particular needs. Alternatively, does your institution need more time to research the needs of the new group and to consider which products and services will meet their needs? Additionally, the board should think through both the commercial and social advantages of expanding client outreach, and whether the institution will achieve both, or only one. An example of achieving both: the institution expands to more rural areas, meeting the social goal of financial inclusion and the financial goal of reducing the risk of client exit based on poaching from other urban lenders.

*Maintaining your Social Focus During Transformation: Key Questions to Ask* discusses the measures that FIE (Bolivia) took to protect its social mission when it made the transition from a non-profit NGO to a for-profit provider. It offers lists of key questions to ask potential new donors and investors.