Standard 2B

Senior management oversees implementation of the provider's strategy for achieving its social goals.

> Essential Practice 2B.1 Senior management operationalizes the provider's social strategy.

> Essential Practice 2B.2 Senior management analyzes and addresses social performance-related risks.

> Essential Practice 2B.3 The CEO/Managing Director holds senior managers accountable for making progress toward the provider's social goals.

2B.1 OPERATIONALIZE THE SOCIAL STRATEGY

Managers should make all strategic and operational decisions with the goal of balancing the institution's financial and social goals. In practice, this means:

- Integrating your institution's social performance goals into strategic planning; and
- Considering all decisions for their potential effects on clients and employees, and monitoring these over time.

Strategic and operational decisions

As described in standard 1a your institution's overall strategy should include the mission, target clients, social goals, targets, and indicators. Beyond this institutional strategy, all business plans (e.g., contracts with investors; new product proposals) should be in line with the provider's social goals. A practical way to achieve this alignment is to require a social performance review of all business plans/contracts/strategies/operational decisions before they are finalized. Management should discuss how any given plan or decision may:

- Affect clients;
- Affect employees;
- Impact your institution's ability to achieve its social targets, as well as its public reputation;
- Require the institution to collect additional social performance data; or
- Require adjustments to the institution's stated social goals

For example, if a provider were considering pursuing a more aggressive growth strategy, management and the board would need to consider not only the financial implications, but the effects on staff and clients. Will the strategy help achieve the provider's goal of increasing financial inclusion for unbanked people? (most likely). Will it place additional strain on busy staff? (yes, unless new staff are hired or other efficiencies introduced). Will clients experience aggressive sales due to new, higher case load targets for staff? (likely, unless mitigating measures are taken).

In addition to management and the board considering the effect of strategic decisions on clients, you should ask managers at all levels to do an automatic "social performance check" on all daily business decisions. This check can be as simple as asking: "how does this decision affect clients?" before choosing a course of action. Discuss with managers how this check might play out in the normal course of daily business and how it might cause them to change current operations or planned activities. Identify key middle management employees and field employees who can help answer this question by bringing field-level experiences and realities to the discussions.

Compare performance to targets

A provider cannot truly know how it is performing against its social targets unless it measures and monitors its performance in a regular, objective, and deliberate way.[49] Anecdotal evidence and impressions can be misleading and even grossly inaccurate. Therefore, managers should use social data to track progress on social targets on a regular basis. Such tracking will allow:

- Management to hold itself accountable to the targets;
- Board members and/or investors to hold management accountable to the targets, including holding the CEO/Director accountable to the targets;[50]
- Management to incentivize employees against social performance targets and reward those with good performance;
- Management and the board to investigate the reasons for poor results or unexpected results, and to respond—for example, by modifying products, services, and delivery channels;

[49] Standard 1a discusses setting social targets.
[50] Guidance for standard 2b discusses board evaluation of the CEO/Director.

- The provider to demonstrate progress to external stakeholders, improving its credibility in the marketplace; and
- All non-management employees to see how the provider is progressing (or not) toward its social targets, building awareness about what the provider wants to achieve.

For example, CRECER (Bolivia) found through client research that its *Credit with Education Program* was not creating changes in the nutrition-related health behaviors of mothers nor the nutritional status of their children.[51] Investigating further, CRECER found that the quality of instruction provided to clients varied greatly among field agents, with some providing high-quality instruction and others struggling to do so. When CRECER disaggregated the clients' scores by higher-quality instruction and lower-quality instruction, the clients who had received higher-quality education *did* show positive results—findings that were initially masked by the client average. This sent a clear message that the program *could* be effective, but only with the right instruction. These findings lead to significant changes in the way CRECER trained and supervised staff.

MicroLoan Foundation (Malawi) also made strategic improvements based on social data. The FSP has a strong social mission, and initially it assumed it was reaching rural poor women, given that it was working in communities with many poor people. But after tracking baseline poverty data, MicroLoan Foundation realized that nearly half (46%) of new clients were *above* US $1.25/day purchasing power parity (PPP), making them *less poor* than the average rural Malawian. Following workshops with branch staff and management, a number of barriers were identified that were stopping the poorest from having access to loans, including organizational culture (lack of awareness that outreach to the poorest could be improved, lack of data, belief that the poor could not repay reliably, staff incentives based on portfolio size); product design details (minimum loan sizes too high for the poorest, compulsory savings requirement to access a loan not feasible for the poorest); and client self-exclusion (risk aversion, lack of confidence).

To address these barriers, MicroLoan Foundation conducted workshops with staff to ensure clearer understanding of the social mission and how to serve the poor better, and they launched a pilot with significant methodological changes, including: the design of a new pro-poor loan (smaller loan size plus savings), client mentoring, loan rescheduling options, quality checks on group members, and prevention of over-indebtedness by tracking individual clients' missed savings and repayments. Staff incentives were accordingly revised to promote inclusion of the poor.

- Imp-Act's *SPM Practice Guide* (Chapter 3) discusses how to create a strategy to achieve social objectives. Also available in Spanish and French.
- Imp-Act's *Guidance Note on Strategic Planning* lists key issues to consider when setting a strategy for SPM. Also available in Spanish and French.
- *Opportunity Bank Serbia: Implementing a Strategic Plan for SPM* details how management and the board developed a new strategic plan. It outlines the roles that different people played in the process and how they set strategic objectives for the organization.

[51] Adapted from here.

2B.2 MONITOR SOCIAL PERFORMANCE RISKS

Risk management systems within many FSPs tend to focus on financial and operational risks like fraud. But your institution may also face risks that are more closely related to your ability to serve clients effectively. For example, using client satisfaction surveys, CREZCAMOS (Colombia) identified three significant problems related to transparency of information: 1) clients did not understand contract clauses, 2) clients had difficulties understanding some of the charges (fees, interest, insurance, etc.) included in payment instalments, and 3) clients did not understand what procedures CREZCAMOS would follow in case of default or late payment. The FSP recognized that lack of transparency was a major risk to its portfolio, and they decided to institute a "Welcome Kit" for clients, which provides in one place all of the information clients need to know about a given product. CREZCAMOS reports that the new transparency measure has improved the FSP's public image and made it easier to recover loans because clients are informed on collections procedures in advance[52].

Internal audit and/or risk management should integrate social performance criteria into their regular activities. In addition, your institution can use external assessment of social performance risks such as social ratings, audits, or client protection certification. Table 13 offers some ideas of common social performance risks. Generate your own list of risk factors to monitor based on your social goals and market context. Discuss preliminary findings that signal possible threats, and monitor these more closely.

[52] Read the full CREZCAMOS case study here. Download the Welcome Kit (Spanish) here.

TABLE 13. **SOCIAL PERFORMANCE RISKS TO MONITOR**

RISK	EXAMPLES OF MONITORING
Client over-indebtedness	• Generate regular client PAR reports, segmented by client characteristic and branch. • Check client repayment capacity evaluations performed by loan officers. • Interview delinquent clients to check for multiple borrowing and inappropriate loan sizes. • Review whether loan products fit with the investment needs of clients (timing, duration, grace-periods, flexibility to irregular incomes or unanticipated down-turns).
Lack of transparency on terms and conditions	• Interview clients to assess their knowledge of product/ service terms and conditions.
Employee dissatisfaction/exit	• Assess salaries to check for gender and other biases. • Conduct exit interviews with employees. • Check compliance with local law and transparency of salary scale.
Disrespectful and/ or abusive loan collection practices	• Check client complaints registered through the institution's complaints mechanism. • Interview a sample of exiting clients and ask about collections practices.
Incentives that can lead to negative employee behavior	• Conduct annual review of employee incentives, checking for unintentional, negative consequences of incentives (e.g., client recruitment incentives that lead employees to recruit clients who already have loans with multiple institutions).
Client dissatisfaction/ exit	• Conduct periodic or ongoing client satisfaction surveys. • Monitor client exit by branch.
Selection of clients outside target group (e.g., wealthier clients)	• Check reports of client business types. • Monitor poverty levels of incoming clients.

FIELD EXAMPLE 22. KASHF FOUNDATION MONITORS RISK USING CLIENT INTERVIEWS

Kashf Foundation's (KF) (Pakistan) Compliance Department conducts monthly interviews with 3,000 to 3,500 randomly selected clients to check whether staff are complying with KF policies and procedures in the field. The interviews take about ten minutes each. The interview data is compiled, analyzed and presented to management each month.

Interview Questions:

1. Compliance Officer asks the clients to show him/her their pass book, checking for completeness.
2. Who is the loan user?
3. For which business was the loan used?
4. Compliance Officer checks the raw materials being used in the business, checking that the loan was used for the purpose stated in the loan application and business appraisal forms (LABAF).
5. Estimates of income/expenses are reconfirmed, and in case of inconsistency with LABAF, details are recorded.
6. Have you taken a loan from any other provider? If so, in what amount?
7. Has any staff member ever misbehaved during loan recovery or forced you to sell any asset to make the recovery payment?
8. Has any staff member used unprofessional language with you?
9. Have you faced any delay in service on the part of branch staff during the loan process?
10. Are you making your loan payments in advance? If so, how many days in advance?
11. Has a staff member ever asked you to pay a commission or bribe in order to get your loan?
12. Were all the pricing terms disclosed to you, including the documentation fee, insurance premium, and interest rate?
13. Are you satisfied with KF products and services?
14. Are you aware of how to make a complaint to KF?
15. Do you have any questions about KF's policies and procedures?
16. Are KF staff members helpful when you have questions or problems?
17. What do you like about KF? How can we improve?

Read the full case study here.

FIELD EXAMPLE 23. CASHPOR IDENTIFIES A SOCIAL AND FINANCIAL RISK

At Cashpor (India), client data showed continuing poverty among a significant proportion of clients, even among those with five years of regular borrowing. The board of Cashpor reflected on these findings and, drawing on other studies, identified health problems and the related costs of medical care as a major threat to Cashpor's portfolio. Cashpor made the strategic decision to partner with the NGO Healing Fields, which trains Cashpor staff and selected clients to work as community health facilitators, delivering focused health modules at group meetings after the financial transactions are completed. A study of the results found that client health improvements justified a larger investment in the program. Cashpor now allocates 10% of its net profits to their health and education program.

- Imp-Act's *Guidance Note on Internal Controls and Audit* (also available in Spanish and French) and *Guidance Note on Risk Management* both describe how FSPs can systematically check compliance with their social mission. Also available in Spanish and French.
- *Learning from Client Exit* discusses how to monitor one specific type of risk—client exit—and how to use exit information to benefit the institution. Also available in Spanish.

2B.3 HOLD SENIOR MANAGERS ACCOUNTABLE FOR THE INSTITUTION'S SOCIAL GOALS

While your institution should evaluate *all* employees based on their ability to perform their social performance related duties,[53] senior managers should be particularly accountable to your institution's social goals. Senior managers set the tone for other employees, and their level of commitment to your institution's social goals will determine your institution's overall ability to achieve these goals.

Table 14 provides a list of senior management positions, along with examples of institutional goals for which they are responsible and example targets they should meet. Each senior manager at your institution should have such a list of their responsibilities and targets and their regular performance reviews should examine their success in achieving these goals.

TABLE 14. **EXAMPLES OF SOCIAL TARGETS FOR SENIOR MANAGERS**

SENIOR MANAGEMENT POSITION	SOCIAL GOALS FOR WHICH THE EMPLOYEE IS RESPONSIBLE	TARGETS FOR THE SENIOR MANAGER
Internal audit manager	• The institution will disclose all product terms and conditions to clients. • The institution will respond to client complaints. • Field officers will record client data accurately. • Field officers will evaluate client capacity to repay using a cash flow analysis.	• Survey a 5% sample of all new clients to check for understanding of product terms and conditions. • Follow up on 10% of client complaints to check for satisfactory resolution. • Check a 10% sample of client data entries for each branch annually. • Check a 10% sample of loan application forms for accurate cash flow analysis.
Operations director	• The institution will target low-income women. • The institution will prevent client over-indebtedness.	• 80% of new clients are women. • 60% of new clients are under the US $1.25/day poverty line. • Update institution's policies on client debt thresholds by the end of the year.
Human resource manager	• The institution will respond to employee grievances through a formal mechanism. • Employees will receive skill development and training.	• 100% of employees are informed on the mechanism. • 100% of employee complaints are answered within one week. • Employee training needs are identified, and a training plan is presented to executive manager by the end of the year.

[53] Guidance on standard 2c discusses how to evaluate employees on social performance.