Social Performance Task Force®

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Low Growth: SPM Solutions

Low growth can constrain your social goal of financial inclusion and may harm your financial bottom line. This guidance note will help you use the Universal Standards to tackle the challenge of low growth.

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ISSUE 10

December 2016

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No matter what the operational issue keeping you awake at night, if you're looking for a balanced and sustainable solution to a problem, the [Universal Standards] can help you. This note is part of a [series of Guidance Notes] called SPM to Address Operational Challenges—*a series aimed at helping financial service providers (FSPs) use SPM to examine and solve critical operational problems. Each briefing will give you "client-centric questions" to support a more balanced diagnosis, as well as a list of the top resources you need to take action.*

For social businesses, growth should be an outcome, not an objective. Aim for quality services, and growth will naturally follow.

Growth is good, right? Growth means economies of scale and more impact. It means more profit to re-invest in what you love doing in the first place: helping poor clients improve their lives.

If you've acted responsibly so far (see box 1), you've set growth targets that are reasonable in terms of what you are trying to achieve (social goals) and how (market strategy). That said, setting responsible growth targets is just the first step. It's normal to run into a period of sluggish growth–and it can be a useful warning sign that something is amiss. Fortunately, the Universal Standards provide a handy framework to help you diagnose and fix the problem.

Box 1. **Setting responsible growth targets**

Is your growth policy based on sustainable growth rates that consider your capacity, sustainability, and social goals? If not:

Think about external factors:
- Demand by client type based on market research, credit bureau information, market data, etc.
- Penetration rate / market potential / saturation analysis
- Market infrastructure (e.g., capacity of credit bureau)

Think about internal factors:
- Internal control and internal audit capacity to manage risk
- Human resource capability (staff numbers, skills, training, turn-over, workload, productivity)
- MIS quality and capacity
- Service quality and client satisfaction

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The Universal Standards for Social Performance Management ("the Universal Standards") is a comprehensive manual of best practices to help FSPs achieve their social goals. Find the Universal Standards manual here, and guidance on how to put the Universal Standards into practice in the Universal Standards Implementation Guide.

Reality check

The "big flip" here is to look at growth from a social value perspective, not a financial value perspective. Here are a few questions to help frame your conversations:

Is this problem of definitions?

Social businesses view growth differently than purely commercial businesses do. Essentially, it comes down to the question of *means* versus *ends*. Growth is not our ultimate goal–rather we grow as a result of delivering quality services to the right clients, in the *right* way. We grow because we help improve our clients' lives. Make sure your board is having the right conversation about growth.

When your board says "growth"–what do they mean?

• Reaching more clients (absolute numbers, penetration rates within an area)

• Reaching different clients (poorer, younger, SME, more remote)

• Growth in demand (average loan sizes, number of active savings accounts, savings balances)

• Cross-selling more products to the same clients

• Graduating clients to higher-value products

• Diversifying (including offering non-financial and non-credit financial products)

• Reaching a secondary market to cross-subsidize your primary market

• Lower cost to serve

* **SPM for Your Board** and **Board SPM handbook**
Make sure your board knows their roles and responsibilities vis-à-vis SPM.

* **Defining Responsible Financial Performance: How to Think About Growth**
This article is considers the relationship between key financial and social performance indicators.

* **Growth, Profit, and Compensation in Microfinance: How Much is Too Much?**
Growth, profit, and compensation levels may be considered essential for the financial sustainability of FSPs, but how much is too much? This screencast will help you get the conversation going in your organization.

* **Grassroots Capital Management: Draft Framework for Balanced Returns**
To frame a more practical conversation about growth, profit, efficiency, and returns, use this draft balanced returns framework.

Is this a problem of competition?

The market often moves faster than your business plan. If your growth expectations have become too ambitious given recent changes in the competitive landscape, it's time to pause and re-

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Head to [Dimension 6 of the Universal Standards Implementation Guide] to think through leadership and landscape issues in detail.

Have some SPM skeptics on your board? Tackle their concerns head-on using [this SPTF Guidance Note]

align, because pushing growth when it's no longer appropriate can lead to widespread client failure. If you don't know already, this is a good time to find out how many of your clients also bank with other lenders, or how many of your clients leave to bank elsewhere. If you haven't already, it's time to do a market analysis that looks at what others are offering and how.

Box 2. **Multiple loans: Do or Don't?**

Multiple lending can be a serious red flag in the marketplace - and in markets without a central bank (or with a high incidence of informal lending), it's hard to get a sense of the problem.

Many organizations have policies forbidding cross-borrowing—rejecting clients that belong to other institutions. From a client protection perspective, and particularly in crowded markets, this can be a smart move. However, it also puts a dampener on your growth, as potential clients will go elsewhere if you can't match their needs. So how can you grow responsibly in a crowded marketplace?

A responsible, growth-focused response might be to focus not on *the number of loans* a client has, but on the *total amount of debt* against their total *repayment capacity*. You're strongly committed to responsible lending. But when a client's repayment capacity *exceeds* their regular payments, it might be wiser (from a client protection perspective) to allow them a second internal loan rather than withholding a loan and sending them to the competition.

Where you see a lot of overlap in terms of offering between competitors, you might try to view increased competition as an opportunity. It allows you to specialize or diversify, rather than trying be everything to everyone. In fact, broadening your offering to meet a more diverse range of needs for your existing client base is cost effective (because you have an established relationship with a captured market) and fosters client satisfaction and loyalty (because you're helping them solve the problems they face).

* **[Strategic Management Toolkit Handbook]**
Chapter 7 covers strategic analysis and introduces some of the basic approaches to determining an FSP's market position. Chapter 8 helps FSPs put this analysis into practice by looking at client needs analysis, determining the value proposition, and making this work within the marketplace.

* **[The Microfinance Index of Market Outreach and Saturation (MIMOSA)]**
The MIMOSA is an analysis of credit market capacity using the Global Findex dataset, offered by Planet Rating.

Data check

Hard facts

Start by looking at growth from an **institutional perspective** by diving into existing portfolio data. Consider all types of growth: growth in client/geographic outreach, gross loan portfolio, average loan sizes, savings account uptake, average savings balances (and others). Look at where and when growth rates go up, down or

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Trying to understand your clients' financial lives? Leave your assumptions at the door. Head to Dimension 3 of the Universal Standards Implementation Guide to find out more.

Flexible products rely on good design, as well as staff that are trained and supported to help their clients problem-solve mid-cycle.

Head to Section 3 of the Universal Standards Implementation Guide to think through how smart product design can help keep clients on track.

remain the same – and how these trends map against other ones (internal trends, such as staff turnover; or external ones, such as price shocks). Pay particular attention to where you're growing in more than one way at the same time (e.g., deepening both your market penetration and your geographic outreach). Ask yourself whether growth on two different fronts is overstretching your staff and short-changing your clients.

Then try looking at growth from the **perspective of individual clients** by identifying a handful of "typical clients" as well as some "statistical outliers" (e.g., clients with the slowest repeat loan growth, clients with most frequent savings deposits) and building a picture of overall service use. For example: a client might choose to put the brakes on their repeat loan size growth when adding remittance or transfer products to their individual portfolio. Where relevant, pay particular attention to sudden movements in voluntary savings balances – as clients tend to turn to savings in times of trouble or opportunity.

> * **Portfolio Analytics Toolkit**
> Look at the information you already have! The Portfolio Analytics toolkit provides the theoretical background on data analysis and basic statistical concepts as well as a step-by-step process for preparing for and conducting a basic and detailed portfolio analysis.

Soft truths

Your portfolio data will tell you *what* is happening – but not *why*. Isolate key trends and talk to clients and staff to explore the reasons behind the numbers. Use group and individual interviews to find out how things appear from their perspective.

* **Understanding clients through in-depth interviews: *Imp-Act* Practice Note No. 2**
This Practice Note provides a step-by-step guide to developing and conducting in-depth qualitative interviews of individuals in order to uncover useful insights from clients. It guides the reader through the process in ten steps, including planning, data collection, analysis, presentation of findings, and decision-making, emphasizing the need to plan and implement the qualitative process in a way that is appropriate for each FSP and its clients.

Product check

Are you meeting needs *and* preferences?

The Universal Standards distinguish between needs and preferences – and the difference is not just a matter of semantics. Preferences are all about what clients *like* or *dislike* about your products. *Needs* have to do with product features that help them harness opportunities and overcome barriers present in their lives and livelihoods. Remember these two key ideas:

1. Clients can usually identify what they *prefer* in a given product, but rarely can articulate what they *need* to harness opportunities and overcome barriers.

2. Sometimes what clients *prefer* is not what they *need*. For example, most clients want faster loans, but you can't sacrifice quality and client protection for a super speedy

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The difference between clients' needs and preferences is not just semantics.

disbursement process. In some cases, clients may not be fully aware of the consequences of getting what they "want."

Here's a quick example: AMK Cambodia's clients prefer faster disbursement times. AMK's staff prefer to do their work quickly. However, AMK is committed to protecting clients by tailoring loan sizes to client repayment capacity–something they can only guarantee if they carry out a detailed home visit to each and every client for each and every loan. It's time consuming for staff and clients. Yet, home visits are a non-negotiable part of the transaction, and management has a zero-tolerance policy for staff that skip this step. This is a primary example of where needs and preferences don't line up – and AMK prioritizes client needs over preferences. One manager described this policy by proudly announcing: "we'll never be the market leader in customer service!"

Ideally, your products will meet clients' needs *and* preferences at the same time, because this is the best way to pull a beneficial product through the marketplace. However, where needs and preferences don't line up, meet the former first and as many of latter as you safely can.

So how can you build up a picture of client needs? Most FSPs are familiar with market research tools – they're well developed for our sector, and FSPs commonly use them to develop and tweak products. However, it takes a different type of research to dive into what clients *need*. Clients need support to harness opportunities and overcome barriers; in-depth, qualitative research about their lives and livelihoods can help you understand what those opportunities and barriers are. Box 3 lists areas you might want to explore – and of course, add others that are appropriate to your context.

Box 3. **Lives and livelihoods: Areas to explore**

Household characteristics:
Household (size, composition, number of earners, children, gender of head)
Education (literacy, numeracy levels)
Primary/secondary occupation (single or mixed economic basket?)
Assets (house, land, small assets, mixed-use assets)
Access to local markets (frequency, reason [buying, selling, bartering])

Current financial situation:
Income stream (number, levels, certainty)
Expenditure (annual totals, seasonality)
Seasonality (investment, savings, borrowing by month in a typical year)
Harvest statistics (inputs, yield, productivity; where applicable)
Current financial management (how do they borrow and save at present?)
Emergencies (type, frequency, severity, coping mechanisms)

Looking to the future:
Future borrowing patterns (When would you borrow if you could only do so once per year? Twice? How much? What would you use it for? [production/consumption])
Future saving (what would you like to save for?)

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Build up a complete picture of clients' needs, but be strategic about which needs you are able to address right now.

Remember:

- It takes a specific set of research skills to explore clients' livelihoods, so make certain your team has the right ones. Most in-house teams are trained to do rapid and quantitative market research. However, client livelihoods research is more qualitative and in-depth (with smaller samples).

- You'll only need to do deeper livelihoods research once every 5-10 years (depending on how quickly the socio-economic landscape in your area develops).

- Even if you build up a complete picture of clients' needs at once, you might decide to meet only *some* of those needs in the short term. That being the case, your "long-term organizational growth plan" might be about meeting a broader set of needs (by diversifying your offering), rather than reaching more clients (with the same offering).

You might be surprised by the insights revealed by this research. You also might find simple new ways to help your clients improve their lives and livelihoods. For example, if frequent health crises have clients liquidating their savings too often, then offering an emergency loan product might help them get back on track.

* **The Poor and Their Money: An Essay About Financial Services for Poor People**
This Stuart Rutherford essay is a must-read resource for managers thinking about how financial services meet the diverse financial needs of clients. In particular, it helps FSPs to flip their paradigm from "what products can we offer?" to "how can we design products to match your needs?"

* **Use of Loans, Profits and Savings Over Time: SEEP/AIMS Tool**
The "Use of Loans, Profits and Savings Over Time" tool is composed of two distinct modules—one on loan use and the other on savings. These two modules can be used together or individually. In both cases, individual interviews are used to find out how mature clients have used their loans, profits and savings over time. Start on page 239 of the handbook.

Are you building in access barriers?

The industry has created a useful range of tools to understand who is using our services, how, and (broadly) what happens as a result. However, we've paid less attention to the questions: who isn't joining our program, and why aren't they joining? If you're not growing, consider whether you're inadvertently excluding your target clients. The factors driving exclusion are complex, and there's usually more than one cause. Table 1 will help you think through the key issues.

Are you listening to what clients have to say?

Clients vote with their feet and their voices. Make sure you're tuned into both with solid exit and satisfaction surveys. But make sure you're listening in the right way. Here are two things to remember:

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Section 5 of the [Universal Standards Implementation Guide] will help shape your thinking around how you support, train, and encourage your staff to do excellent work for your clients.

Box 3. **Lives and livelihoods: Areas to explore**

The type of process	Who does this, and why
FSP policies and procedures • Eligibility criteria: registration fee, savings, existing business, women • Inappropriate products/services • Organizational culture, policies, or incentives that push staff to target easier-to-reach or better-off clients • Governance: composition, priorities • Growth	• The FSP can adopt deliberate policies that have an expected or unexpected impact on outreach • Staff at all levels will respond to job priorities, mission, incentives, and prejudices
Informal exclusion by clients • Some very poor people may self-exclude • In groups, other clients sometimes prevent very poor people joining (stronger clients often dominate)	• Some clients may lack confidence and be intimidated by the FSP, or the group meetings • Existing clients may think it is in their self-interest to exclude "weak" people, or have prejudices such as the view that poor(er) people are "lazy"
Client exit • Self-selection • Pushed out by other clients or staff	• Clients may decide to leave due to perceived lack of benefits or negative experiences • "Problem" clients may be forced to leave by their peers

• **It's not all about you:** It's great to know what clients like and don't like about what you're doing, but use your conversations to ask them whether (and to what extent) what you're doing helped *them* to solve problems and embrace opportunities.

• **It's not about who shouts loudest:** Research shows that the most vulnerable and excluded are the least likely to advocate for their needs and wants. This is especially true in group settings. So make sure your research team is listening to each voice, not just the loudest voices. Segment your feedback by poverty status or other relevant characteristics, and see whether different insights emerge.

Head to section [3a of the SPM Resource Center] to find more tools for listening to what clients have to say.

Client check

Is this a knowledge problem?

When your clients' businesses grow, your business grows. But of course, no one can predict the opportunities and challenges that clients will encounter along the way. We can do a lot up front in terms of good product design–but so, too, is it important that your clients know how to get the most out of what you're offering. Over time, clients will use more of your services as their financial lives become more complex

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Head to [Dimension 4 of the SPM Resource Center] *a full range of resources related to client protection.*

and varied. It's not enough to just be loyal customers, they also need to be savvy customers, choosing the right products and using them in the most beneficial way. For example, they might be taking out a loan to purchase a bulk item in the short term, rather than using long-term (interest bearing) savings to cover the cost.

Is this a client protection problem?

When clients aren't fully utilizing your services, it might be a symptom of a deeper malaise: namely that they're struggling to repay. Make sure that formal client protection policies are in place, and that staff fully comply with those policies. Consider whether:

- Clients are taking on manageable levels of debt
- Clients understand the cost of your services
- Clients are encouraged to tell you when they're struggling and unsatisfied

Trust is another important issue to consider. If you're sure that clients have the skills and capacity to use more of your services–what's holding them back? Do poor and vulnerable people generally lack trust in the formal financial system in your area? Do they specifically lack trust in your organization? How you communicate with clients, and how you treat them in times of difficulty has a huge impact on whether they trust you. Consider whether:

- Staff (and any related bodies–such as mobile agents, collections agencies) are respectful at all times.
- Products (especially loans) offer enough flexibility for clients to cope with the unexpected without going into default.
- Policies (such as collections) are focused on helping clients succeed (especially when they hit bumps in the road), not just covering your institutional liabilities.

Employee check

Is this a people problem?

Running a thriving social business is hard work–are your employees up for the challenge? Can your employees target the right clients, sell the right products, and support clients in the right way? How you recruit, hire, train, and mentor staff has a huge impact on their effectiveness. Ask yourself:

- **What is your ideal new hire?** Mission-driven FSPs typically weigh soft skills (e.g., values, commitment) over hard ones (e.g., teachable business skills) when hiring new staff. But both are critical to keeping a social business running smoothly.
- **What does your training say about your priorities?** Skills and motivation are both important to staff efficiency. Make sure your training covers the what and the why of employee's day-to-day work.
- **Do you mentor new hires?** For social businesses, it is critical that new hires are fully immersed in the institutional culture. Mentors not only teach hard skills, but they also help new employees get excited about their mission and learn how to treat clients.

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Do your employees have "the heads of bankers and the hearts of social workers"?

Is this a "growing pains" problem?

Your front and back office work in concert to keep the machine running smoothly–but rapid expansion can often result in growing pains. If client numbers are on the rise, you're probably adding field staff to keep up with demand for service delivery. Is your back office keeping pace? Do you have enough recruiters, trainers, auditors, cashiers, area managers, drivers, and janitors to support your front line staff? Consider growth trends in light of your back office size (especially the size of your HR department and the number of training hours staff receive).

Is this a motivation problem?

You ask staff to do excellent work under difficult conditions–serving poor clients, working long hours, and spending lots of time on the road. Training them to do all of this correctly is important–but how do you keep them motivated to "go the extra mile?" What makes your institution a *great place to work*? Remember–it's not just hard incentives (cash bonuses) that motivate staff. Your staff also want to feel listened to, respected, essential, and supported. In this way, soft incentives–like open-door policies and special perks (like time off for birthdays)–matter a lot.

* **Balanced Incentives for Frontline Staff: A Tool for Financial Institutions**

This Smart Campaign Tool discusses the importance of balanced incentives, meaning incentives that balance financial performance (e.g., portfolio growth) with strong client protection practices (e.g., respectful treatment of clients).

* ***Imp-Act* Guidance Note on Staff Incentives**

This briefing frames the key questions to consider when reviewing an FSP's staff incentive system. It then identifies some emerging practices that FSPs are finding helpful in ensuring that the staff incentive systems focus on what matters most.

* **Staff Satisfaction Survey Example Questions**

Ask for staff feedback on their working conditions, training, and pay. Their insights are useful for understanding whether growth problems are related to staff dissatisfaction.

And finally...

As a social business, your business is ultimately about improving the lives of the clients you serve. You measure and manage your success differently. Growth is a positive thing, but only as an outcome of delivering quality services to the right clients in a responsible way. Fortunately, the Universal Standards provide a handy framework to start having a different kind of conversation about growth with your organization and its stakeholders.

"Guidance" is part of a series of short topic-specific bulletins produced by the Social Performance Task Force to inform its membership and other interested parties about key developments. Your comments are always welcome.

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