Convincing the Skeptic

For financial service providers of every shape and size, social performance management (SPM) implementation means change. Changes to policies, changes to procedures, changes to organizational strategy. A smooth change management process means having everyone on board: from your investors to your front-line staff – and even sometimes your national regulator. Where you meet resistance to your SPM work, it’s useful to have a plan to convince your skeptics of the value of SPM.

Know thy skeptic

It’s helpful to remember that skeptics come in all shapes and sizes. Knowing which type you’re engaging with will help you to plan the right approach to addressing their doubts. In our experience, skeptics can be grouped into two general categories—conceptual skeptics and practical skeptics.

**Type 1: Conceptual skeptics**

For those who are unfamiliar with microfinance and SPM, expect a certain amount of resistance at a broader, more theoretical level. You’re likely to encounter two types of objections:

“**Microfinance doesn’t work!**”

A recent high-profile study has labelled microfinance a “zero impact” intervention. It looks across available impact data and concludes that (on average), microfinance does very little to change the lives of poor and vulnerable people. And by “on average,” we mean that some microfinance makes a difference, some does not, and some even makes clients’ lives worse.

You could argue, however, that “does microfinance work?” isn’t actually the most useful question. Rather, we should ask “what makes microfinance work, and for whom?” It’s the details of how we work that matter, and we need to know whether we’re reaching the right clients with appropriate services and delivering them in a quality and responsible way. In this context, SPM helps financial service providers gain clarity about what they want to achieve, track what’s working (and what’s not) for different types of clients, and take corrective measures to ensure that they are delivering social value.

“**SPM is public relations cover-up for banks profiting off the poor!**”

In the wake of several recent and controversial IPOs, this type of doubt is easy to understand. However, it’s important to recognize that it masks a...
more fundamental uneasiness with the idea of microfinance being both socially beneficial and financially sustainable (or indeed profitable). Such skeptics ask: Can commercial institutions benefit the poor? Doesn’t a commercial marketplace eventually corrupt even the best-intentioned providers?

With these skeptics, it’s important to acknowledge that managing a double bottom-line organization is challenging. Especially within competitive markets, productivity and efficiency are important, but must be carefully managed so that they do not erode value for clients. When this delicate balance is left to chance, financial performance often carries more weight than client well-being.

Fortunately, SPM helps providers to identify what aspects of their services are the most important for delivering social value (for example, visiting a client’s home or business during the loan appraisal process), so that increasing efficiency (for example through automation) does not require cutting corners on quality.

Even once you’ve addressed how SPM helps providers balance their performance in a practical and deliberate way, your skeptic might still wonder if SPM is a post-facto “white-washing” exercise to cover up past failings of the industry. Here, you can emphasise that the roots of the SPM agenda reach deep into the industry’s history: the STPF has been working for the past ten years to consolidate work that had already been underway since 1995, long before the so-called “backlash” against microfinance.

It’s not impossible to achieve a double bottom-line. Take for example CASHPOR India, which in addition to implementing SPM was ranked in the top four MFI’s globally on the MIX on key financial performance indicators such as efficiency. In Cambodia, AMK delivers measurable social benefits to its clients in line with its mission, and also attracts both social and commercial investors to its boardroom.

“Skeptics often see SPM as an issue of branding rather than substance. But it’s their own skepticism that undermines the success of SPM. If you don’t commit to SPM, it won’t work. Yes we have a social mission, but we also have concrete social objectives embedded into our strategy, so it’s part of our institutional fabric, rather than whitewash.”

– Lubna Tiwana
Khushhalibank Ltd.
(Pakistan)

Type 2: Practical skeptics

Even when skeptics see the value of microfinance, and acknowledge that SPM might be useful, they might still raise objections of a more practical nature. Be aware—this group of skeptics includes a range of actors, both within and outside your organization. Even if you identify your organization as “social,” voices of doubt may come from your board, your staff, your investors, or your national regulator. In our experience, their objections tend to be along the following lines:

“SPM is too confusing!”

It’s true that there are a lot of tools and resources available out there to help microfinance organizations take a more deliberate approach to managing a double bottom-line. What’s also true is that industry bodies such as the Social Performance Task Force (SPTF) have dedicated a great deal of effort to bringing harmony and clarity to the SPM landscape, and developing resources for providers.

The SPTF simplified SPM substantially with the creation of the Universal Standards for SPM (“the Universal Standards”)—a comprehensive manual of best practices for SPM. The Universal Standards provide a common understanding and language for SPM, and since they were created in collaboration with many other SPM initiatives, they are truly representative of the best thinking in the industry.

Many stakeholders use the Universal Standards as their single most important SPM resource. For example, many social investors use the Universal Standards for due diligence and social data collection, and many providers use the SPI4 tool to audit their SPM practices, because the SPI4 is fully aligned with the Universal Standards. In other words, the industry is moving toward a widespread, shared understanding of SPM, which is helping to reduce confusion.
The Skeptic (cont’d)

If you want to help your skeptics navigate their way through the available resources, take a look at the Getting Started page on the SPTF website. You can also download free communications materials (for different audiences) and read a quick overview of the different SPM-related initiatives, and how they link together.

“SPM is too costly!”

When SPM change management includes new tools, new trainings, and new technology, some skeptics can’t see past the price tag. The skeptics who don’t understand the value of SPM tend to view it as a cost-centric activity that doesn’t make significant contribution to the double bottom-line. They tend to concentrate on the value of other activities such as business planning, operational management, product design etc., without understanding how SPM is an integral part of each of these activities.

It’s hard to quantify the costs of not doing SPM. Instead, communicate the following points about the cost (and value) of SPM:

• By definition, the cost structure of any double bottom-line institution needs to include SPM. If we value social outcomes, we need to dedicate resources to measuring and managing them.

• Once SPM is embedded into existing operational systems (that is, putting a “client value” lens on things you already do--such as staff training, internal audit, or loan repayment capacity checks) – the marginal additional costs goes down.

• Good decisions require good data—but many MFIs find they already have the data they need (for example in your loan application forms), and can save money by dropping data points they never use.

• Effective SPM can lead to more loyal clients and more satisfied productive staff--both of which will save you money in the long term. 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.

SPM doesn’t have to be big and costly to be meaningful.

Read this case study: KAWOSA: Small changes, big impact. This is a story about small changes that make a big impact on how a microfinance organization benefits the people it works with. It’s also a story about how even the smallest, least sophisticated organization (think 4 staff and 1,500 clients) can take simple, practical steps to reach excluded people, provide more effective services, and minimize the risk of harm. And if they can afford to do it, so can you!

“The more I spend on SPM, the less I can spend on my staff!”

On this point, listen to the wise words of Mukul Jaiswal, Managing Director of CASHPOR (India): “Yes, there’s a trade-off between SPM and profitability. But we’re not here to make the most profit possible; we’re here to do good things with the profit that we do make. Here’s an example. As CEO, I have a target that our financial self-sufficiency should be between 105-115%, and anything outside of this – my incentives get cut. This keeps me on track. Our operating principle is that whatever surpluses are generated, we do one of three things: we pass them on to clients through interest rate reductions or creating new training programs. Second, we use our surpluses to strengthen our outreach to increase financial inclusion. Third, we invest in our staff. We invest in skill-building, competitive remuneration, and a good working environment.”

SPM helps organizations to value staff in many ways. Head to the SPM Resource Center, Dimension 5 for guidelines, tools, tips and case studies on how to treat your staff well, and get the best out of them as a result.

“We are not here to make the most profit possible, we’re here to do good things with the profit we make. We do one of three things with surplus: (1) reduce interest rates for clients, (2) increase outreach, and (3) invest in staff.”

– Mukul Jaiswal
CASHPOR (India)
Demonstrate the benefits

When dealing with the unconvinced, always describe the benefits (“how is SPM useful?”) before going into technical detail (“what is our SPM process?”). This is because until your skeptic becomes excited about the possibilities, they’ll be unlikely to want to hear the nitty-gritty details about what it involves. Fortunately, the benefits of SPM are wide-ranging, occurring at both the client and staff level.

Arm yourself with both stories and numbers to address the voices of doubt – and use both depending on your audience (review Box 1). Present the benefits at two levels:

• **Operational level:** Examples of SPM contributing to operational improvements are substantial and visible in measureable outcomes such as a reduction in client complaints, better product development, increased sales, and increased client satisfaction/retention levels. Consider real operational challenges that you have witnessed, and demonstrate how SPM contributes to their resolution. Emphasize how operational benefits almost always strengthen the provider’s financial position.

• **Client outcomes level:** Highlight reliable data you might have around positive changes in household income levels, client savings levels, reduction in vulnerability to shocks, poverty levels, etc. An SPM Dashboard is useful for organizing and presenting these types of results (see this example from Khushhalibank and this example from Opportunity International). And it’s not just about how microfinance can deliver client value – it’s also important to highlight how SPM can help protect clients from harm (by making sure they take on responsible levels of debt, that they know their rights, and the lending process protects their privacy and their dignity). (Browse the SPM Resource Centre on this topic)

**SPM and the financial bottom-line:** Examples from other institutions can also be useful in talking about the benefits of SPM – especially when talking about SPM from a financial perspective. Read one story about the radical turn-around of [UGAFODE Uganda](#). After suffering from critical challenges in operational performance (hemorrhaging clients, staff and money), the organization focused on delivering real benefits to clients in order to generate clear commercial and social returns, and a solid foundation for future growth.

**Box 1. The Benefits of SPM—key talking points**

<table>
<thead>
<tr>
<th>Benefits to providers</th>
<th>Benefits to clients:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Higher client satisfaction and loyalty – which means more time to recoup the costs of new client training</td>
<td>• More appropriate products and services that meet both clients’ needs and wants (around income/expenditure smoothing, investment, and coping with emergencies)</td>
</tr>
<tr>
<td>• Lower operational costs, where processes can be streamlined and improved</td>
<td>• Reduced risk of over-indebtedness and default</td>
</tr>
<tr>
<td>• Enhanced reputation, brand value and trust (and for the industry as a whole!)</td>
<td>• Strengthened financial literacy, deeper knowledge of financial rights and responsibilities</td>
</tr>
<tr>
<td>• Better-trained and motivated staff, who are willing to “go the extra mile”</td>
<td>• Improved risk management, and lower client default</td>
</tr>
<tr>
<td>• Stronger policies and procedures to deliver client value</td>
<td>•</td>
</tr>
</tbody>
</table>
Model the process

Once your skeptic perceives the benefits of SPM, it’s time to talk about what the process looks like, sounds like, and feels like within the organization’s daily life. This might involve walking your skeptic through your own processes, or highlighting key aspects using practical examples from elsewhere.

1. Let other providers model SPM for you: There are a number of practical “how-to” videos available on the SPTF website, modeling SPM processes from across the globe. Not only do they give a flavor of why SPM is helpful and what it involves – but they also put a crucial “human face” on SPM. (See also Box 2, for a first-person perspective on SPM from Pakistan.)

2. Be concrete about what it all means for them: If you’re talking to your internal departmental staff, who might want to know how SPM will change their daily work, you can look to the SPM Resource Center for targeted guidance on integrating an SPM lens into, for example, internal control and staff incentives. Your board and management might be interested in what it looks like to apply an SPM lens to strategic planning and risk management.

3. Close the change gap: The gap between point A (where we are) and point B (where we want to be) is often smaller than we fear, especially when it comes to changing the way we work. Are your stakeholders baulking in fear of having more work added to their plate as a result of SPM? If so, it’s useful to point out those areas where SPM involves either:

   a) A change of emphasis rather than workload: Decisions get made every day within an organization, and at its simplest, SPM is just about asking “what does this mean for how I protect and support clients?” Equally: training, auditing, hiring—these are all things that happen day in and day out. Here, SPM is simply about making sure you’re asking the right questions along the way (e.g., Do staff know how to do good loan appraisal? Are you checking to see whether clients know your complaints hotline number? Are your potential new hires willing to “go the extra mile” for poor clients?). In these cases, “change” just means a little bit of up-front work to re-engineer processes that are already underway, rather than an on-going additional burden.

   b) Streamlining without losing quality: Staff are busy—often stretched to the max. Identify operational areas where SPM will actually increase their productivity or decrease their workload, while at the same time maintaining value for clients. For example, you might drop five unused data points from your loan application form, but add two that are important to ensure that clients aren’t becoming overindebted. A win-win for staff and clients!
And when in doubt… ask for help

It could be that even with all the right arguments and the right tools at your fingertips, you still can’t bring your skeptic around. We hope this doesn’t happen, but if it does, fear not. Here’s what you can do next:

- Get your national or regional network involved. Thanks to the SPTF and the work of the SP Fund (managed by the Microfinance Centre), many national networks are now on the forefront of SPM advocacy and support. Contact yours, and find out what help they can provide in your advocacy and change work.

- **Contact the SPTF Secretariat**. They can talk through your concerns with you, and either point you to the right resources to make the case for SPM, or put you in touch with another provider who successfully overcame the same obstacle. Remember, you’re part of a community of practice—so reach out for support when you need it!