Your Board’s Social Responsibilities

Guiding your board to manage social performance

Most boards have the best intentions for the financial services providers (FSPs) they lead, but many focus primarily on financial success without realizing that financial and social performance go hand-in-hand. Your board may need some straightforward guidance—an SPM orientation, a discussion of their SPM-related responsibilities, a simple SPM report—so that they can manage the double bottom-line.

Orient your board to SPM

SPM can seem like a lofty abstraction that board members don’t associate with their own day-to-day work. Effective boards need information on the concrete importance of SPM, how it will benefit the institution, and what role they as leaders must play.

Discuss the importance of SPM and how it will benefit the institution

Explain the basics: 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.

Once they understand what SPM is, convince them that it’s valuable for the institution (see Box 1). Discuss how stronger SPM practices will help the FSP serve clients better, strengthen the institution’s financial performance, and help to solve operational challenges.

Use language that your board will find appealing. For example, the terms “balanced performance management” and “responsible finance” may be more palatable for financially minded board members.

Discuss the Universal Standards and key industry SPM initiatives

Many board members will not be aware of national and international efforts to support strong SPM practices, such as the SPTF Universal Standards for SPM, the CERISE SPI4 social audit tool, and the Smart Campaign’s client protection standards. Boards don’t need to understand the details of each
complementary initiative. But they should know that SPM is a global phenomenon, that there are communities of practice dedicated to helping FSPs improve performance, and that impact investors are paying increasing attention. Key message: you aren’t acting alone!

Find more strategies for discussing the importance of SPM with your board in the SPTF’s *Convincing the Skeptic*.

**Discuss the board’s role in SPM**

Your board will want to discuss what SPM means for their work. The board should expect to: establish/approve the FSP’s social strategy; review social performance reports to check for progress toward social goals; hold the CEO accountable to achieving the social goals; and make strategic decisions about growth, prices, and profits that balance social and financial performance.

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**Suggested talking points on the benefits of SPM**

- **SPM can strengthen financial performance.**
  - The essence of SPM is knowing your clients and serving their needs. That is the key to success for any business, mission-driven or not, whether in financial services or another sector.
  - Robust client data allows for better segmentation, targeting, and cross-selling.
  - How you treat your staff is how they will treat your clients. Good SPM will reduce staff turnover and customer churn.
  - Client protection systems can be a smart risk management strategy whose costs are justified by new business generated.

- **There are ways to reduce SPM-related costs.**
  - SPM doesn’t have to be big and costly to be meaningful. Most institutions start with small, less-costly changes first (e.g., monitoring just a handful of social targets, making a few changes to improve treatment of clients). You can build momentum over time for larger, systemic changes or for taking on tougher challenges (e.g., targeting harder-to-reach excluded segments).
  - After a social audit, most institutions find that they already have many good practices in place and can build from those (e.g., the FSP already interviews clients, so they simply add or refine questions to better understand client needs).

- **Social investors care about SPM.**
  - Increasingly, funders seek more than photos and heartwarming stories; they demand accountability for achieving real social results and reward FIs that can deliver social data.
  - Regulators and policymakers are raising the bar on client protection practices, social reporting, and in some cases, actual social outcomes. Proactive FSPs will benefit from staying ahead of these demands.

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Manage SPM at the board level

Once your board is oriented to SPM, they should begin the process of actively managing the institution’s social performance.

Set a social strategy
Achieving a social mission requires purposeful management, guided by a formal strategic plan, or a “social strategy.” The board should be involved in creating, implementing, and monitoring achievement of the strategy. Read more on the social strategy on page 49-58 of the Universal Standards Implementation Guide.

Review social performance data at the board level
Your board must use social performance data to make decisions, which means they must have access to that information. Provide your board regularly with data on the institution’s social goals (see Box 2). Start with a simple dashboard report that provides concrete information about the institution. Discuss in concrete terms how the board can use data to inform strategic decisions—for example, client exit statistics grouped with data from exit interviews can help the board create a client retention strategy.

Mange social risks
SPM data can demonstrate whether clients are satisfied and can also reveal problems such as abusive staff, client over-indebtedness, or client confusion over product terms and conditions. Dissatisfied or poorly served clients will struggle to repay their loans and ultimately leave the institution. Failure to protect clients will lead to reputational damage.

Ensure that board discussions about risk include this client-facing perspective.
Be sure to provide the board with data on clients who pose the biggest risks.

Example contents of an SPM report for the board
- Outreach to target clients (quantitative) and characteristics of current clients (qualitative)
- Social indicators that measure progress toward social targets
- Client retention data / feedback data or satisfaction surveys/ exit survey data
- Client protection risks and practices, including compliance with any relevant codes of conduct/ regulations
- Employee retention and satisfaction/ effectiveness of HR policies
- Growth targets vs. actual growth (for discussion on responsible growth)
- Profit allocation and data (for discussion on responsible prices and profits)
- Any 3rd-party analysis on the above (e.g. from internal audit or a social rating).

Box 2
The “client check”
All decisions should pass the client check. This check may be as simple as asking: “how does this decision affect clients?” For example: How will a reduction in brick-and-mortar offices and an increase in mobile agents affect clients? Positively? Negatively?

At first, these discussions may feel forced. But in time, it should become second nature for the board to consider the client perspective at every major decision point.
for the FSP. For example, if you find that
the majority of exit clients leave during
their first or second loan cycles, provide
additional data on those clients—such as
demographic and business information,
as well as exit interview data—to help
the board make fully informed decisions
about how to manage the risk of client
exit.

The board should also work to prevent
the risk of “mission drift” (moving away
from the FSP’s original social intention)
particularly during periods of change,
such as when accepting funding from
new sources, when introducing new
products and services (including new
service providers), and when targeting
new client segments. The board must
have relevant social performance data
and be committed to asking critical
questions about the social impact of each
strategic decision.

**Balance social and financial performance**

Balancing social and financial performance is not a board “activity;” it
is a way of doing business. The following priorities are particularly important
for a board’s balanced performance management:

- **Evaluating the CEO based on the financial and social performance of the institution.** The FSP’s social targets (defined in the “social strategy” discussed above) should be part of
the CEO’s performance criteria. Such
criteria might include client outreach
and retention targets, client outcome
targets, and staff retention targets.

- **Setting and monitoring growth targets that promote client and institutional wellbeing.** The Board
should understand both local market
conditions that affect growth (external
factors), and the institution’s capacity
for growth (internal factors), such as
staff capacity and risk management
capabilities. The Board should
participate in setting target growth rates
that allow the FSP to maintain good
customer service, respect clients’ rights,
and ensure manageable workloads for
employees. The Board should monitor
whether the FSP is staying within
the targeted growth rates, as well as
whether institutional capacity is keeping
pace with growth.

- **Aligning expectations between the institution and investors, particularly on profit, and pursuing profits that contribute to client and institutional wellbeing.** The board should also
be involved in setting desired profit
levels as well as institutional policies
on the use of profits. Management,
the board, and other investors should
develop a shared understanding of
the appropriate level of profit and the
allocation of profits between investors,
the institution, and clients. This will help
maintain consistency between profit
expectations/allocation and the FSP’s
social goals.

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“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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