Strategic Business Planning for Market-led Financial Institutions Toolkit

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MicroSave - Market-led solutions for financial services
Introduction

1.1 Introduction to Strategic Business Planning

1.1.1 What Is Strategic Business Planning?
Strategic business planning is a disciplined and pragmatic approach that organisations can use to make decisions now about the future. It enables them to make more informed choices and decisions, set future directions, establish priorities, allocate limited resources, improve operations and monitor results.

It is also a process of organisational self-assessment, goal setting, strategy development and performance monitoring. In the planning process, financial institutions determine (or review) their core functions and objectives/goals within the context of trends in the external environment, their internal capacities as organisations and their missions. Determining their core functions and objectives/goals gives financial institutions a focus – a focus that allows them to plan activities, assign priorities and apply resources to move them from where they are now in the present to where they want to be in the future.

In other words, strategic business planning allows financial institutions to consider future scenarios and outcomes in advance and to decide which ones that they want to make happen. Such thinking and planning beforehand can help financial institutions make better decisions about their programmes and services … and as a result better meet the needs of its clients. Simply put strategic business planning puts financial institutions in a better position to accomplish what they set out to do, especially in the future. Thus, strategic business planning, is a tool for organising the present on the basis of the projections of the desired future – it is a road map to lead an organisation from where it is now to where it would like to be in five or ten years.

To achieve the above, the strategic business plan must be:
- Simple, clear and written
- Based on the real current situation
- Have enough time allowed to give it a time to settle. It should not be rushed. Rushing the plan will cause problems.

1.2 Strategic Business Planning - Purpose and Benefits

1.2.1 So What’s New? We Do Planning Anyway …
Planning is not new - most organisations routinely prepare yearly operational plans. Some of them even develop long range or “comprehensive” plans. Strategic business planning, however, distinctly differs from each of those planning activities. Among its most distinguishing characteristics are:
- A bias for action;
- Emphasis on strategic thinking rather than producing a planning document;
- Anticipation of future events and their likely impact on the fundamental organisational operations;
- Focus on identifying what is essential for organisational success and channelling resources toward those efforts;
- Concentration on results; and
- Capability to see a desired future-state and construct it.

1.2.2 What Are The Benefits of Strategic Business Planning?
Simply put, strategic business planning helps a financial institution understand its present situation, examine how current and future trends may affect it and decide how to best manage anticipated challenges. A precise set of concepts, procedures and tools help a financial institution interpret emerging trends and issues. During
each planning cycle, insights gained equip the financial institution to effectively respond to rapid, complex change as it deliberately focuses on its desired destination.

Strategic business planning therefore potentially improves organisational management in many ways. Foremost, a well-executed planning exercise promotes a common understanding about the financial institution’s overall direction and purpose. Individuals see how their actions support the financial institution’s mission. Clarity of purpose enhances the organisation’s ability to recognise and concentrate on those activities or actions that are fundamentally important.

Second, the strategic business planning process trains staff to think and act strategically. These skills permit the organisation to creatively handle changing circumstances.

Other possible benefits include:
- The ability to move from crisis-driven to anticipatory decision making with a clearly established direction for key issues;
- Emphasis on results and benefits rather than levels of service and workloads;
- Sharply focused issues for review and debate by top management;
- A framework to link budget allocations to priority issues and improve accountability;
- Improved communication between service providers and their various constituencies;
- An enhanced ability to respond quickly to changing conditions because of lessons learnt while analysing its current situation;
- Improved capacity to structure and direct resources to achieve excellence and profit from opportunities and generate desired results;
- Better information for decision-making and resource allocation;
- A comprehensive understanding of constituent expectations;
- A foundation for building teamwork;
- An emphasis on measurable objectives which promote greater accountability for performance;
- Improved organisational performance; and
- An increased possibility of equal or better results using fewer resources.

While strategic business planning offers a financial institution an array of potential benefits, it should not be construed as a panacea. A well-executed strategic business planning process requires both commitment and resources from the financial institution’s management. For that reason, management should discuss and articulate its expectations for the planning process before starting it. These expectations guide process design so that it meets the financial institution’s unique needs.

In the 21st Century Successful Organisations are Characterised by:

- “Carefully crafting and articulating the essence of their business and determining the Main Thing [What Really Matters]
- Defining a few critical strategic goals and imperatives and deploying them throughout their organizations
- Tying performance measures to a system and metrics to those goals
- Linking these measures to a system of rewards and recognition
- Personally reviewing the performance of their people to ensure the goals are met”.

- George Labovitz and Victor Rosansky

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1.3 Factors That Contribute To Success

1.3.1 What Is The “Right Way” To Conduct Strategic Planning?

There is no one “right way” for an institution to develop a strategic business plan. Different institutions will plan in different ways – all with equally successful results. It is not possible, or even desirable, to prescribe a singular planning process for all institutions to follow. Each institution therefore needs to design a planning process that suits unique needs and abilities. We offer this approach because it has proved a successful way of developing a strategic business plan in a participatory manner thus optimising “buy-in” from the management and staff that must implement it.

If an institution has a long established tradition of planning and the staff, resources in place to do the job, strategic business planning – as a process – will be a familiar activity. If however, an institution does not have any past planning experience, putting a new process in place will require considerably more effort. In either case, this toolkit should assist the institution needing advice about how to design or tailor a planning process appropriate to its unique circumstances.

This emphasis on the planning process raises a related point: the process is more important than the plan. Planning, done well, will enable financial institutions to better position themselves in preparing for future contingencies. The plan itself is simply an outcome of the process and serves only to document the thinking.
and decision-making that has occurred. For this reason, the strategic business plan is only as good as the process that produces it. Therefore, when deciding how to spend its time, effort, and resources, it is wiser for an institution to place greater weight on the planning process than on the planning document.

Every planning exercise is unique in its own way; the people involved change, new issues emerge while old issues modulate, priorities shift, constituent desires and needs shift, resources rise or fall etc. While circumstances vary, successful strategic business planning processes tend to share the following common characteristics:

- It has the full support and commitment of the Board, management and staff.
- It is flexible and user friendly.
- It is participatory. It involves executives, managers, supervisors and staff at all levels; it gives each of them a “piece of the action”.
- It is not left to planners; everyone plans.
- It clearly defines responsibilities and timetables. It is carried out by those who have the responsibility within the organisation for achieving objectives, but is coordinated by someone who has the “big picture”.
- It galvanises the financial institution; it produces understanding and common purpose (or “alignment”) throughout the organisation.
- It stays aware of the environment in which it functions. It obtains perspectives from many levels and sources, both within and outside the institution.
- It is realistic about goals, objectives, resources, and outcomes. It takes personnel issues, overall fiscal conditions and budgetary trends into account.
- It is politically and socially sensitive.
- It is convincing. It develops and conveys compelling evidence for its recommendations. It uses innovative communications strategies.
- It has a method or strategy for resolving conflicts among stakeholders.
- It establishes and ensures accountability for results.
- It leads to resource decisions and acknowledges the reality of having to do more with less, often requiring tradeoffs or the redirection of resources.
- It is fresh and continuous not stale and static. Both the plan and planning process are reviewed and modified regularly (usually annually).

Key Point

Strategic business planning is not a strategic business plan. Strategic business planning is more than filling out forms or compiling a document. Much of the value of strategic business planning is realised during the process of planning itself.

1.3.2 How Do We Organise The Planning Process?

As operational and management decisions about the strategic business planning process are needed frequently, a group, committee or task force is designated to serve in this capacity. To make it easier, this toolkit will call this group a strategic business planning team. The team may be an existing group, the senior management team, some other type of management group, or a wider group specifically established for the planning process. While recommendations and suggestions may be made about the group’s composition, senior management has the final say about the participants and group structure.

Generally, the team’s size and membership is consistent with the institution’s size, structure and scope of operations. The need to have adequate representation is balanced against the need to keep the group’s size manageable.

The strategic business planning team decides the best way to carry out the planning process. The organisation must keep in mind that strategic business planning is cyclical and its effectiveness flows from its repetitious
nature. In addition to overseeing the planning process, the team may establish necessary work groups; develop or review the mission, goals, and objectives; define the critical issues; develop a strategy for managing those issues; and examine the implementation costs of the plan.

1.3.3 Who Should Be In The Strategic Business Planning Team?
The effectiveness of the team is enhanced when members have in depth knowledge about the institution and its operations, when they understand the various needs of the constituents, are willing to serve and demonstrate an ability to get things done. The Managing Director/CEO and senior management staff nearly always serve on the planning team. In addition, the following staff members may add valuable perspectives to the planning process:

- **Programme managers, supervisors and field personnel** bring knowledge and insight about the field and their constituents. Generally, these are also the people responsible for making the ideas contained in the plan operational.

- **Financial or budget managers** provide an understanding of the institution’s financing and can offer analysis of the fiscal impact of alternative approaches. They are the ones, working with programme staff, who will use the plan to drive financial projections, budget requests and manage decisions about resource allocations.

- **Branch or unit managers** can assist in determining the impact of the plan on any branches that the financial institution may have. They also should be using the plan as a guide for capital outlay and other planning.

- **Human resource managers** add an understanding of how the plan interfaces with the institution’s current workforce and the institution’s current human resources policies. Further, their specific expertise helps identify additional staffing needs required for implementation, new or continued training needs to equip current employees to perform successfully, and any necessary changes in organisational structure to support the plan. Ideally, they should be completely aware of how the plan guides overall operations and filters down to the individual performance assessment process.

- **Information system managers** must understand the institution’s business activities and its preferred direction for these activities in order to ascertain how information systems can best support the institution’s work. The plan is also useful in setting the future directions of the institution’s information systems.

- **Planning coordinator** is generally responsible for developing and implementing a workable planning process. This person procures necessary resources to keep the process moving within its established time table. *(This need not be a standing position; however, it is helpful for someone in the institution to be designated to fill this role)*

- **Public information personnel** are responsible for developing strategies for communicating the plan internally and externally. Creating a shared sense of purpose is critical. The institution must make the fullest use of this staff to disseminate ongoing information about planning and performance.

- **Quality coordinator or the person in charge of any quality efforts that the institution is undertaking**. This person will see that the quality efforts are integrated fully and consistently with the institution’s strategic business planning process.

**Final checklist to review the Strategic Business Planning Team:**
The strategic business planning team serves as the oversight and coordinating body for the planning process. The specific duties and responsibilities assigned to the team are dependent upon the unique needs and desires of the institution.

- Is the planning team heterogeneous?
- Do the planning team members represent diverse areas and interests?
- Do they possess a variety of strengths, knowledge and skills?
- Are they knowledgeable about the institution and its operations?
- Are they knowledgeable about the primary customers or clients?
Strategic Business Planning for Financial Institutions Toolkit - Wright et al.

- Are they influential and persuasive with their constituents?
- Do they have access to and an interest in the long-term direction of the institution?
- Do they have the time and energy to commit to the strategic business planning process?
- Can and will each member make a significant contribution to the strategic business planning effort?

1.4 Strategy

1.4.1 What Is Strategy?

George Steiner, a professor of management and one of the founders of The California Management Review, is generally considered a key figure in the origins and development of strategic planning. His book, Strategic Planning [2], is viewed as seminal on the subject. Yet, Steiner does not bother to define strategy except in the notes at the end of his book. There, he notes that strategy entered the management literature as a way of referring to what one did to counter a competitor's actual or predicted moves. Steiner also points out in his notes that there is very little agreement as to the meaning of strategy in the business world. Some of the definitions in use to which Steiner pointed include the following:

- Strategy is that which top management does that is of great importance to the organisation;
- Strategy refers to basic directional decisions, that is, to purposes and missions. Strategy consists of the important actions necessary to realise these directions.
- Strategy answers the question: What should the organisation be doing?
- Strategy answers the question: What are the ends we seek and how should we achieve them?

Steiner was writing in 1979, at roughly the mid-point of the rise of strategic planning. Perhaps the confusion surrounding strategy contributed to the demise of strategic planning in the late 1980s. The rise and subsequent fall of strategic planning brings us to Henry Mintzberg.

Strategy According to Henry Mintzberg

Henry Mintzberg, in his 1994 book, The Rise and Fall of Strategic Planning [3], points out that people use "strategy" in several different ways, the most common being these four:

- Strategy is a plan, a "how," a means of getting from here to there.
- Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.
- Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.
- Strategy is perspective, that is, vision and direction.

Mintzberg argues that strategy emerges over time as intentions collide with and accommodate a changing reality. Thus, one might start with a perspective and conclude that it calls for a certain position, which is to be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg called "realised" or emergent strategy.

Mintzberg’s typology has support in the earlier writings of others concerned with strategy in the business world, most notably, Kenneth Andrews, a Harvard Business School professor and for many years editor of the Harvard Business Review.

Strategy According to Kenneth Andrews

Kenneth Andrews presents this lengthy definition of strategy in his book, The Concept of Corporate Strategy [4]:

"Corporate strategy is the pattern [italics added] of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organisation it is or
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intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities (pp.18-19).

Andrew’s definition obviously anticipates Mintzberg’s attention to pattern, plan, and perspective. Andrews also draws a distinction between "corporate strategy," which determines the businesses in which a company will compete, and "business strategy," which defines the basis of competition for a given business. Thus, he also anticipated "position" as a form of strategy. Strategy as the basis for competition brings us to another Harvard Business School professor, Michael Porter, the undisputed guru of competitive strategy.

Strategy According to Michael Porter
In a 1996 Harvard Business Review article [5] and in an earlier book [6], Porter argues that competitive strategy is "about being different." He adds, "It means deliberately choosing a different set of activities to deliver a unique mix of value." In short, Porter argues that strategy is about competitive position, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors. In his earlier book, Porter defines competitive strategy as "a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there." Thus, Porter seems to embrace strategy as both plan and position. (It should be noted that Porter writes about competitive strategy, not about strategy in general.)

1.4.2 How Does It Relate To Other Components?
• The Strategic Plan outlines the strategic direction for the business and its:
  - Market and scope
  - Market growth strategy
  - Value proposition
  - Strategy towards the competition
• The KOGMA Analysis provides the business plan (key objectives, goals, measures/targets and activities) to achieve the organisation’s mission/vision. Together the Strategic Plan and the KOGMA Analysis provides the Strategic Business Plan.
• Financial Planning/Projections helps you assess, project and plan the financial implications (revenues and costs) of your Strategic Business Plan.
• Governance helps to assess the Strategic Business Plan and provide over sight of its implementation – including remedial action if there are significant deviations from or flaws in it.
• Strategic Marketing Plan outlines the shorter term actions in a way that they are aligned to your mission and strategy.
Strategic Business Planning and Financial Planning

Strategic business planning and financial planning, or budgeting, are integral components of good management. The strategic business plan charts direction, while the budget provides resources to implement the plan. A strategic business plan neither grounded in fiscal reality nor linked to the budget would be only a dream. On the other hand, resource allocation without strategic thinking would be shortsighted and unresponsive to future conditions.

Strategic business planning guides the financial planning process. It establishes and affords management an opportunity to reevaluate existing allocations of funds. Financial institutions can develop strategies and action plans that detail what will be accomplished to achieve strategic business planning goals and objectives each year. These action plans together with performance measures, provide the strongest links between the operating and capital outlay budgets.

Strategic business planning and financial planning are interactive. Assumptions about available resources affect what can be achieved in the plan; the plan also sets priorities for resource allocations. Since funding continues to be limited, strategic business planning can help financial institutions as they strive to “do more with less” while remaining focussed on results.

The internal/external assessment component of the strategic business planning process can be valuable in identifying trends, demand factors and strategic issues to support the development of financial projections. Well conceived strategic business plans with missions and goals that emphasise accomplishment of meaningful results in a constrained fiscal environment provide strong justification for resource allocation.
1.5 Information to Develop the Strategy

To develop the Strategy, the five Information Packages that inform almost all aspects of a financial institution’s marketing activities will be helpful for your strategic planning purposes:

1. **Market Analysis** – profiles and understands the target/potential market;
2. **Competitor Analysis** – profiles and understands the financial institution’s competitors (both formal, semi-formal and informal);
3. **Customer Analysis** – tracks performance through customer research, particularly through customer satisfaction analysis;
4. **PEST Analysis** – examines the Political, Economic, Social (including legal and environmental) and Technological environment within which the financial institution operates; and
5. **Institutional Analysis** – examines strengths and weaknesses.

1.6 How Does Operational Effectiveness and Strategy Correlate?

At some level extremely high levels of effectiveness become, one might say, “hygiene factors” (very true for mature industries; not so much so in many environments where microfinance is relatively new. This trend becomes more common as microfinance industry develops – as evidenced in Latin America, advanced European MF markets - Bosnia). Operational efficiencies in most microfinance institutions (MFIs) are very closely comparable - successful ones pursue specific and distinct strategies that differentiate them in the market. Still more important because of emerging competition from commercial banks (often with significantly higher levels of effectiveness) who downscale and enter the traditional turf of non-bank MFIs.

On the other hand, the situation in many environments is still characterised by wide variations of effectiveness. Building a strategy based on better effectiveness and higher profitability would hardly work long term as ultimately we’ll compete with the best of them as pointed out previously.

Hence, strategy is about being different, about defining your competitive advantage and planning for sustaining it over a long period of time.

It is therefore impotent to watch out for:

1. **Inconsistencies in image or reputation** (trying to offer a new product/service that does not match your market “position” or image).
2. **New activities** that require different product configurations, different equipment, different employee behaviour, different skills and/or different management systems
3. **Limits on internal coordination and control** that will reduce your effectiveness/ability to implement the Strategy.
1.7 Overview of the Strategic Business Planning Process

1.7.1 What Is MicroSave’s Approach To Strategic Business Planning?
MicroSave uses the approach outlined in the diagram below to conduct Strategic Business Planning.

- Mission, values, vision at the core of your strategy
- Diagnose current strategic position
- Formulate strategy
- Financial Projections & Budgets

Strategy Development

KOGMA Analysis
Or Business Plan
Development

- Implement and monitor KOGMA analysis
- Create Measures/targets and Activities analysis
- Create Key Objectives and Goals analysis
1.7.2 What Are The Nineteen Steps In Strategic Business Planning

Underlying this framework there are essential 19 steps involved:

**Developing the Strategy**

**Mission, Values, Vision At The Core Of Your Strategy**

- Step 1: Define/Refine the Mission Of The Organisation
- Step 2: Identify The Organisation’s Values
- Step 3: Define the Organisation’s Vision

**Diagnose Current Strategic Position**

- Step 4: Conduct Market Analysis
- Step 5: Conduct Competition Analysis
- Step 6: Conduct Institutional Analysis
- Step 7: Conduct Sector and Macro-environment Analysis

**Formulate Your Strategy**

- Step 8: Pull It All Together With SWOT
- Step 9: Formulate Your Strategy

**Developing the Financial Projections**

**Financial Projections And Budgets**

- Step 10: Develop Financial Projections

**Developing the Business Plan (with KOGMA Analysis)**

**Create Key Objectives and Goals Analysis**

- Step 11: Identify Key Objectives
- Step 12: Set Goals

**Create Measures/Targets and Activities Analysis**

- Step 13: Select Measures
- Step 14: Set Targets
- Step 15: Define Activities
- Step 16: Re-visit Your Financial Projections

**Implementing the Business Plan (with KOGMA Analysis)**

**Implement and Monitor KOGMA Analysis**

- Step 17: Communicate the Plan!
- Step 18: Reporting, Use & Learning
- Step 19: Update Your KOGMA Analysis
Mission, Values and Vision

2.1 Step 1: Define The Organisation’s Mission

Most microfinance institutions have a Mission Statement …. Indeed the microfinance industry itself is “on a mission” to extend and deepen the access to financial services to the poor.

The Mission is the reason for an institution’s existence. It clearly and succinctly identifies what the organisation does, why it does it, and for whom. The Mission reminds everyone – the public, government entities and staff – of the unique purposes promoted and served by the organisation. The Mission statement provides the foundation for the rest of the strategic business plan. The financial institution’s goals, objectives, and strategies must be consonant with its mission statement.

The Mission:
- Is about people’s ideological motivation, not products or clients;
- Should lead the organisation for decades; and
- It is almost impossible to realise thus stimulates the organisation’s progress and change.

The Mission is the purpose of the organisation. It is like a star that is inspiring and leading the organisation. The Mission must be clearly and regularly communicated … and management should ensure that the Mission is clearly understood and internalised by all staff.

**Mission Statement**

“We mobilize resources and offer credit to maximise value and economically empower microfinance clients and other stakeholders by offering customer-focused, quality financial services.”

Most MFIs have Mission statements. While this step does not necessarily suggest that the institution spend time rewriting its Mission, it does offer the opportunity to review the statement and determine whether revisions are necessary. Changes in the external and internal organisational environment do influence its identity and direction. Consequently, Mission statements will need periodic updating to ensure that they are still meaningful and easily understood by all constituents. This exercise is often done using “5 Whys” ….
Dis-assemble the Mission statement into separate descriptive statements (there might as well be just one). Ask “Why is it important?” five times applying the question to each consecutive answer … thus drilling deep down into the ideas/philosophy underlying the Mission statement.

As a final review, an effective Mission statement should meet the following criteria:
- It is clear and concise
- It is understood by a wide audience of the institution’s stakeholders
- It addresses the institution’s mandates
- It identifies the basic needs and distinct problems that the institution was designed to manage
- It is realistic
- It defines whom the institution serves
- It serves as the foundation for the institution’s direction
- It acknowledges the expectations of the institution’s primary stakeholders

The Mission that is developed serves as an umbrella for all of the institution’s sub-programmes and services. Individual programmes or units may develop their own Mission statements. However, all individual Mission statements must be compatible and congruent with the institution’s overall Mission.

Eventually, you should be able to answer the following questions with clarity and surety:
- Who are we? What makes us different and why it will endure?
- What basic social or political needs or problems do we exist to meet? Our purpose of existing?
- How do we recognise, anticipate and respond to these problems or needs? (This will help us to look outside our institution and to consider wider environment. It will lighten our external orientation).
- How should we respond to our key respondents? (Consider various stakeholders and their needs. How you propose to respond to these needs?)
- What is our guiding philosophy or culture? (When you have clarified your Mission – Values, Vision and Strategy will follow)
- What makes us distinctive or unique? What distinguishes us in the eyes of different stakeholders?

2.2 Step 2: Identify The Organisation’s Values

Values are timeless principles that guide an organisation and make an open proclamation about how the organisation expects everybody to behave. These Values can be basis of competitive advantage but this is not the reason for following them.

Values are indifferent to market trends but rather represent the deeply held beliefs within an organisation that are demonstrated through the day-to-day behaviours of employees that share the Values. Indeed staff are often attracted to work for the organisation because of it Mission and Values.

As part of recent strategic planning process, **Equity Bank** collectively defined its core Values. These Values are the “PICTURE” that Equity wants to present:

- **Professionalism**
- **Integrity**
- **Creativity and innovation**
- **Teamwork**
- **Unity of purpose**
- **Respect and dedication to customer care**
- **Effective corporate governance**

**Partner MFI, Bosnia & Herzegovina’s Values**

- **Entrepreneur spirit**: We support creativity, pro-activity and our people work with enthusiasm.
- **Action oriented**: Without delay and stagnation we start and finish all jobs.
Equal relation toward all people without prejudices: We respect the rights of all individuals and we are not limited by any prejudices.
Simplicity: We believe that simple solutions are the best solutions.
Reliability: Reliability is the basic characteristic of our work
Transparency: Our work is transparent inside of organisation as well as toward public which is surrounding us.
Dedication: Partner employees are dedicated to the work and loyal to the company.
Responsibility: We are responsible toward clients, company, employees and environment.
Constant striving for progress: By constant learning we make progress and become stronger.
Team work: We believe that only as a team we can achieve common goals.
Persistence: We give our best and we never give up.

As can be seen from the two examples above, there is no generic set of Values that is “right” for a microfinance institution, nor a specific way of expressing those Values. The form does not matter … substance and living the Values does!!

“Communication, Respect and Integrity” …. They sound pretty good? Be careful: these are of Enron! It was not alone – 55% of Fortune 100 companies use “integrity” as a Value.

The issue is what are your real (not just stated) Values. Research shows that employees will immediately think about a leader as hypocrite if his actions are not consistent with publicly stated Values. It is important that staff develops their own meaning of Values so that there is no clash between what leaders meant and what it meant in reality.

Values should be aggressively authentic. Walk into your office or branch. Look around, listen and observe. How what you see relates to the stated Values of your organisation? Do you feel the Values are reflecting the reality?

Very few managers use this powerful tool in their management … but management by shared Values helps you to attract staff that shares the same belief, principles and wants to follow you. Shared Values help you to work on every day basis since not everything is possible to standardise and provide a procedure for. If you want to identify your Values just to put them on paper on the shelf or wall – don’t waste your time.

2.3 Step 3: Define Your Organisation’s Vision

So far we’ve discussed the Mission and Values of the organisations that constitute their “ideologies”. Let’s move on the Vision that brings in a dynamic dimension. Everybody knows Martin Luther King speech delivered on the steps of the Lincoln Memorial on August 28, 1963. “I have a dream …” A vision that inspires and galvanises people into action.

The Vision is the inspirational BAG – the Big Audacious Goal that helps us express our envisioned future. BAGs usually are set for around 10 years beyond their current capacities and should be:

Concise - should immediately grab your attention
Appealing to ALL stakeholders
Consistent with Mission and Values
Verifiable - it is written for a certain period of time (in contrast to Mission and Values)
Feasible but not certain (50-70% chances to succeed and demanding high performance from all to do so)
Inspirational - should not only guide but also arouse the collective passion of the employees
The **Vision** should describe the situation or condition of the organisation in 10 years time after it has achieved its big audacious goal. Senior management should describe their envisioned future and promote it widely across the organisation.

**A Vision statement is a clear and compelling picture of the financial institution’s preferred future.** It provides a description of the ideal future state made concrete. It is where the institution is going and where it wants to be. This preferred future must be sufficient desirable and challenging so that it motivates and inspires all institution staff and influences their decision-making. Yet at the same time, the Vision of the institution’s future must be realistic and credible. When integrated with the institution’s Mission statement and Values, the Vision statement serves as the framework for the institution’s planning process.

> “Vision translates mission into truly meaningful intended results – and guides the allocation of time, energy and resources. In my experience, it is only through a compelling vision that a deep sense of purpose comes alive” – Peter Senge.

These three example BAGs show how they can be quantitative or qualitative … either so long as they are verifiable:

**Microcredit Summit**
- “Ensure that 100 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the year 2005”.

**Southern Africa Microfinance Capacity Building Facility**
- “Our vision is to see in place, effective, profitable and sustainable Microfinance Institutions which become viable vehicles for the eradication of poverty and the achievement of economic and human development within the Southern African Region”.

**Equity Bank**
- “To be the preferred microfinance service provider, contributing to the economic prosperity of Africa.”

**Together the Mission, Values and Vision will drive the Strategic Plan:**
Think about yourself and people in your organisation. Why do you come to work? If this is a difficult question to answer (which would be really bad, maybe you should change your job), think about things that you like to do, that you are enthusiastic about. There is something more in it than just financial rewards. People need challenge, appreciation, and the feeling that their efforts are important. These are good instruments, if authentic, to make your people enthusiastic and inspired.

The study of long-term best performing organisations summarise in the excellent book “built to last”, showed that “being visionary” is an important factor in an organisation long term success. Unfortunately, these are very rarely used. In a typical company you will find most often staff who usually came to the company with energy and enthusiasm and ended up being one of the following categories (think about your friends or yourself, have you noticed it):

- **Contractors** = obedient and indifferent. For good pay and working conditions they sell your firm their 8 or 9 hours and capabilities. If they are offered better conditions they will leave you for better job.
- **Loyalists** = bounded to the firm by long term employment, they like what they do, they are proud of their position, they get good conditions and change would mean to high psychological costs and uncertainty that they tolerate badly.
- **Guardians**= they are with the firm for good. Usually, they are the ones that established the organisation or they are emotionally bounded to the leader or they have internalised the Mission and Values of the institution.

Usually there are very few guardians, a little bit more of loyalists, the majority are contractors.
The Mission, Values and Vision:

- Should inspire and be shared by people
- Should become a mantra of every employee
- Should convince “contractors” and “loyalists” that your Mission and Vision makes sense and can become also their dream and aspiration
- The whole firm and management should consistently move towards realisation of the Vision and be reliable in their belief and focus on the Mission to make it a powerful tool.

**Caution:** Being consistent with the Mission, Values and Vision is a must. For example, in 1988 GM launched its big campaign “GM staff as most important asset”. Three years later they announced the closure of 21 factories and firing 18% of staff.

The Mission, Values and Vision cannot be meaningless and must be practiced everyday within the organisation – only if Mission, Values and Vision are shared by the employees can they have a strategic role.
Diagnose Current Strategic Position

*MicroSave* uses the framework outlined in the diagram below to diagnose an organisation’s current strategic position and develop its core Strategy:

- **Choice of market and scope**
  - Who are my strategic clients?
  - Where to serve?
  - What product to deliver to satisfy my strategic clients?
  - *Market analysis*

- **Strategy towards competition**
  - Who are my competitors?
  - How to respond to competition?
  - *Competitor analysis*

- **Competitive advantage development**
  - What are the strengths of my organisation?
  - Which strengths are unique and hard to copy?
  - *Institutional analysis*

While making strategic choices access the trends in the sector and macro-environment, which can influence our activity – Opportunities and Threats

### 3.1 Step 4: Conduct Market Analysis

In this step we examine:

- Who are my organisation’s strategic clients?
- Where should my organisation offer products/services to those clients?
- What product should my organisation deliver to satisfy my strategic clients?

Analysing the needs of client and potential clients and developing a deep understanding of these needs is the key and prerequisite for any strategic analysis and actions. Understanding the client is a necessary background for decisions in both the selection of the markets to serve (who/where) and product (what) areas – and these are our strategic choices.

“Feeling” the market comes with experience but it still should be confirmed by market research and client analysis.

**What The Client Is Really Buying**

When a man (or woman) buys a drill, he/she is not buying the drill because he/she loves the engineering or mechanics in the drill … but rather because he/she needs to make a hole. He/she is buying a hole! Similarly, your clients do not buy your product nor service for its own sake - your product satisfies clients’ needs … and these needs evolve over time. Your product should address a need strong enough to drive your strategic client to buy it – it is a great challenge especially in competitive market.
3.1.1 What Information To Gather?
There is an endless amount of information that you could gather about your market, but what you basically need to know is the following:

- Whose needs are you supposed to be meeting? Which market or kinds of markets do your corporate vision, mission, and strategy direct you to serve? Whose needs are you actually meeting? What do you really sell? What combination of needs and aspirations do you address?
- Who currently buys your product(s)? In which markets are you operating? Which markets have been particularly successful for you?
- Are there other markets you would like to serve? Are there other customers you would be capable of serving?
- What are the needs, wants, preferences, values and priorities of the markets you are currently serving or would like to serve?

It is important to note that clients’ needs satisfied by the same product change over time as their demographics (family status, size etc.), level of income, life style, values, fashion, etc. change. It is important to identify these trends because they change your market and provide opportunities to enter new ones. Patterns of clients’ needs from different sub-cultures are very often different.

Consider these evolving needs while making strategic decisions regarding the market segments you currently and potentially want to serve.

3.1.2 What Is Market Segmentation?
Market segmentation is the process of dividing a market into groups of customers (i.e., segments) that have somewhat different needs or preferences. Your financial institution can divide its market in numerous ways, for example, according to:

- Demographic characteristics (e.g. gender, age, income, household size, education, illiteracy)
- Cultural variables (e.g. religion, ethnicity, language spoken)
- Geographic variables (e.g. location, population density)
- Psychographic variables (e.g. personality, lifestyle, likes and dislikes, values)
- Type of business or economic sector of employment (e.g. farmer, small trader, tea, coffee)
- User status (e.g. ex-user, potential user, first-time user, regular user)
- Usage frequency (e.g. heavy, medium, light or non-users)
- Attitude toward a product or institution (e.g. enthusiastic, positive, indifferent, negative, hostile)
- Financial service needs (e.g. savings, money transfer, size of loan required, timing of loan required, loan purpose)
- Benefit sought (e.g. low price, high quality, excellent service)

Clearly, any market can be segmented in a variety of different ways, but not all of these options will be equally relevant or useful to your institution. The challenge is to identify which kind of segmentation makes most sense for you. Along what dimensions do your customers’ needs vary?

3.1.3 Why Segment Your Market?
Historically, financial institutions have operated under the implicit assumption that microfinance clients are essentially homogeneous. As a result, a “one product fits all” approach dominates the microfinance industry in many countries. In reality, however, the financial service needs of poor people are as diverse and complex as those of richer people and market segmentation can help you to better understand that diversity and complexity. The segmentation process can enable you to:

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3.1.4 How To Segment Your Market?

You can identify a market segment in one of two ways: either survey the marketplace or survey your customers. Again, it all boils down to market research. You can conduct the survey yourself or hire a company or consultant to do it for you. You can also set up internal systems to do it automatically, for example, by collecting information that you believe will be useful for segmentation from loan application and account opening forms, and by using your management information system to help you organise and process that information. You will no doubt need to examine a number of segmentation variables in order to select the ones that best explain customer behaviour in the particular product or market context being considered.
Box 1: Data Collection Using Account Opening Forms

AMC (a microfinance institution) collects a variety of data on its account opening form using a very simple “tick-the-box” survey instrument:

<table>
<thead>
<tr>
<th>Demographic profile</th>
<th>Product usage patterns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marital status</td>
<td>Which products does the customer use in AMC</td>
</tr>
<tr>
<td>Age</td>
<td>Which products does the customer use in other financial</td>
</tr>
<tr>
<td>Education</td>
<td>service organisations</td>
</tr>
<tr>
<td>Income</td>
<td>For what do they use their current financial services</td>
</tr>
<tr>
<td>Employment</td>
<td></td>
</tr>
<tr>
<td>Where the client lives</td>
<td></td>
</tr>
<tr>
<td>What languages they speak</td>
<td></td>
</tr>
<tr>
<td>What is the client’s level of education</td>
<td></td>
</tr>
<tr>
<td>What newspapers or magazines do they read</td>
<td></td>
</tr>
<tr>
<td>Do they have TV or radio</td>
<td></td>
</tr>
<tr>
<td>What they do for entertainment etc.</td>
<td></td>
</tr>
<tr>
<td>Satisfaction with AMC</td>
<td></td>
</tr>
<tr>
<td>Efficiency</td>
<td>Politeness</td>
</tr>
<tr>
<td>Ability to communicate clearly</td>
<td></td>
</tr>
<tr>
<td>Value for money</td>
<td></td>
</tr>
</tbody>
</table>

As you process the information and experiment with different customer groupings, check to make sure that the groups under consideration have the potential to be effective market segments. An effective market segment should be:

✓ **Identifiable.** Can you describe the customers in the segment with several characteristics in common?
✓ **Measurable.** Can the size, purchasing power and characteristics of the segment be measured?
✓ **Accessible.** Can you effectively reach and serve the segment?
✓ **Substantial.** Is the segment large and profitable enough to serve?
✓ **Differentiable.** Is there something unique about the segment’s response to different marketing-mix elements that distinguishes it from other segments?
✓ **Actionable.** Can effective programmes be formulated to attract and serve the segment?

3.1.5 What Do I Do With Market Segments Once I Have Them?

Once you have identified various market segments as having the potential to be effective, target those segments that offer your financial institution the greatest opportunity. Consider your strengths in relation to the needs of potential customers, your competition, and the overall attractiveness of the market environment. No matter what your reason for wanting to target a particular market segment, you should examine your abilities and resources and choose to focus on the segments whose needs you can meet most effectively. Check your institution’s core competencies against the requirements of each segment, and select the ones you can best serve.

Once you have selected a target market or markets, research those market segments in detail and begin planning how you will meet their needs. Be prepared to conduct ongoing research, as the characteristics and needs of each market segment will change over time. The segment may grow or shrink. Its needs, expectations, priorities and preferences will change as the market changes, as competition changes, as technology advances, as the population ages, as the socio-economic and political environment changes, etc. Use today’s market segments to shape your institution’s value today, but continue to research your segments to be able to effectively shape your value in the future.
3.2 Step 5: Conduct Competition Analysis

3.2.1 How Do I Identify My Real Competitors?

There are three levels of competition:

1. **Direct competition**: Offering same products on the same market – for example another MFI; a Credit Union; a bank that has come down market; and of course the informal sector – so for example a money lender or an ASCA\(^1\) or chit fund.
2. **Substitute competition**: Offering different products satisfying same or similar needs – for example saving money instead of taking a loan.
3. **Potential competition**: Which can become direct or substitute competition – for example commercial banks targeting micro-enterprises; suppliers starting to extend credit to micro-businesses or supermarkets starting offering financial services e.g. payment orders

Not every player in the sector is a competitor – many will only offer products/services to market segments that your institution has chosen not to serve. Real competitors satisfy similar sets of needs and address similar clients – these are the institutions that you need to assess, understand and decide how to respond to.

However, your competitors will also:

- Think how to win the market;
- Seek to fortify their segments;
- Expand into new market segments or broaden the client needs they serve; and
- Acquire new competencies or enter into partnerships to deliver enhanced products/services

Critical Success Factors are helpful to recognise competitors – you can use it as criteria in strategic groups map (see below). Critical Success Factors are factors which are important for success in your market – for example:

- Interest rates
- Loan size
- Grace period
- Access to capital
- Client orientation
- Strong brand

![Strategic Business Planning for Financial Institutions Toolkit - Wright et al.](https://example.com/figure)

- Take a few pairs of non-correlated factors/features which differentiate players in the sector (e.g. interest rate – access to capital, quality of service – number of served segments, number of products – social orientation …).
- Place different players on the map according to chosen criteria.
- Size of a bubble represents each player’s market share.
- Strategic groups map helps us to clarify who are our competitors – these are players who are in similar position on different strategy maps.
- MFIA is in the same strategic group as ours (“MyMFI”) on interest and access to capital. If this pattern recurs when we create different pair maps, we will need to examine whether MFIA is following a similar strategy to ours.

\(^1\) ASCA = Accumulating Savings and Credit Association

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For your institution’s main or flagship product(s) conduct a Competition Analysis Matrix to examine where you have competitive:
- Advantages
- Disadvantages

3.2.2 How Do I Competition Analysis?
(See Product Competition Analysis Matrix below – Note this should be maintained on a routine basis by the financial institution)

Remembering that “the competition” also includes the informal sector … (indeed the informal sector is most MFIs’ major competition) ask yourself the following questions:
1. What is the competition currently charging for similar products? What terms and characteristics of the competitors’ products, that seem to be successful, are appropriate for our market?
2. What are the systems being used by the competitors to deliver the product?
3. What is the product’s position in the market? What market segment is the product aimed at?
4. How is the product marketed to the public?
5. How is the product perceived by the public? (What do they like/dislike about it?)
6. How will the competition react to your institution’s introduction of a new product? (e.g. Will they react to introduced new products? Will they adjust the price and terms of existing products? Will they ignore you?)
7. What products do you expect to see your competition introducing in the near future?

This then allows you to conduct competitive position analysis to assess the areas which:
➢ Should be targeted for improvement and
➢ Provide you with specific competences unique to our institution, difficult to copy or replicate and seen as a source of sustainable competitive advantage.
<table>
<thead>
<tr>
<th>Product (Design)</th>
<th>Uganda Women’s Finance Trust</th>
<th>FINCA-Uganda</th>
<th>Uganda Micro-finance Union</th>
<th>Pride Uganda</th>
<th>Faulu</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purposes (agric. personal business, any)</strong></td>
<td>Agriculture, Poultry, Business, Trade/Commerce and Services</td>
<td>Agriculture, Poultry, Business, Trade/Commerce</td>
<td>Personal Business, Trade/Commerce, Transport, Social services, Agric. - poultry</td>
<td>Personal Business, Trade/Commerce, Transport, Agric. - poultry</td>
<td>A Solidarity group of 40 broken down into groups of 5's. Compulsory savings of Ush.2,000 per week. Physical presence of a member at a week’s meeting, 25% of the loan value as compulsory savings. <strong>Growth Business Loan</strong>: DBL is a small group of (5-7) people, graduation from the big group and each guaranteeing the other. Faulu requires compulsory savings of 25% of the loan value on the account. Security like land title vehicle log books comparable to the loan must be pledged to the group. Chattel mortgages like furniture, stock, TVs, etc.</td>
</tr>
<tr>
<td><strong>Collateral / Guarantees</strong></td>
<td>Groups: 20% of the loan amount as compulsory savings/security. Small groups of 5-10 members with 80% of the group women executives inclusive. The small groups form a bigger group of about 30 members (Village Bank).</td>
<td>Smaller Group Loans (Small Enterprise Programme): Group guarantee scheme of 5 members of which 80% are women. Guarantor, assets/chattel mortgage e.g. deep freezers, stock, fridges, TVs, cookers valued on sight. Savings of 20% of loan amount as security. For the village banking programme, the groups must be between 20 to 30 members saving 20% of the loan amount on the account plus giving chattel mortgage like stock, cows, sofa sets etc.</td>
<td>Small loans need no formal collateral. I.e. group guarantee system of (5-10) people. Compulsory savings of 20% of the loan as security on the account. For larger loans chattel mortgage e.g. deep freezers, stock, fridges, other household items: TVs, cookers etc. (Small loans range between Ush.100,000 to Ush.400,000; any amounts greater than Ush.400,000 qualifies to be a large loan under this category)</td>
<td>Group guarantee system 5-9 members each co-guaranteeing the other. A member saves Ush.2,200 per week as compulsory savings into the “Loan Insurance Fund” (L.I.F.), 25% of loan value as savings on the account which acts as security. Physical presence of a member at a week’s meeting. Chattel mortgage e.g. deep freezers, stock, fridges, TVs etc.</td>
<td>A Solidarity group of 40 broken down into groups of 5's. Compulsory savings of Ush.2,000 per week. Physical presence of a member at a week’s meeting, 25% of the loan value as compulsory savings. Growth Business Loan: DBL is a small group of (5-7) people, graduation from the big group and each guaranteeing the other. Faulu requires compulsory savings of 25% of the loan value on the account. Security like land title vehicle log books comparable to the loan must be pledged to the group. Chattel mortgages like furniture, stock, TVs, etc.</td>
</tr>
<tr>
<td><strong>Duration of loan</strong></td>
<td>4-6 months</td>
<td>For the Small Enterprise Programme loan: 8-32 weeks. Village Banking Loan: 16-32 weeks depending on group credit rating</td>
<td>6-12 months</td>
<td>25-50 weeks</td>
<td>4 months for a beginner. (Flexible) from 4,6,9,12 months.</td>
</tr>
<tr>
<td><strong>Grace Period</strong></td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>Minimum 2 weeks and maximum 4.</td>
</tr>
<tr>
<td><strong>Group Individual</strong></td>
<td>Group</td>
<td>Group</td>
<td>Group</td>
<td>Group</td>
<td>Group</td>
</tr>
<tr>
<td><strong>Loan size</strong></td>
<td>Group loan qualifies one to graduate to higher amounts of Ush.250,000 then to Ush.500,000</td>
<td>Small Enterprise loan. Minimum Ush.100,000</td>
<td>Ush.100,000 to Ush.400,000</td>
<td>Minimum Ush.150,000.</td>
<td>Group Loans. Ush.50,000 - Ush.300,000 for a beginner and Maximum Ush.5Million for Growth Business Loan.</td>
</tr>
<tr>
<td><strong>Access Requirements (registered business, attendance of sensitisation meetings etc., cash flow, business plan, tax clearance certificate etc.)</strong></td>
<td>Village Bank part of a group of around thirty saving. Or a Small Enterprise Programme (SEP) loan of five. Attend weekly meetings. Resident within 20Km from nearest FINCA Office. Must be in groups of five with 60% women. Must have operated an income generating activity for at least 6 months. The group must be registered at least at the local council.</td>
<td>Village Bank part of a group of five. Attend weekly meetings. Resident within 20Km from nearest FINCA Office. Must be in groups of five with 60% women. Must have operated an income generating activity for 4months. The group must be registered at least at the local council.</td>
<td>Village Bank part of a group of five. Attend weekly meetings. Resident within 20Km from nearest FINCA Office. Must be in groups of five with 60% women. Must have operated an income generating activity for at least 6 months. The group must be registered at least at the local council.</td>
<td>Village Bank part of a group of five. Attend weekly meetings. Resident within 20Km from nearest FINCA Office. Must be in groups of five with 60% women. Must have operated an income generating activity for at least 6 months. The group must be registered at least at the local council.</td>
<td>Village Bank part of a group of five. Attend weekly meetings. Resident within 20Km from nearest FINCA Office. Must be in groups of five with 60% women. Must have operated an income generating activity for at least 6 months. The group must be registered at least at the local council.</td>
</tr>
<tr>
<td><strong>Price</strong></td>
<td>6% per month for an individual loan. 4% per month for group village banking loan.</td>
<td>6% per month for an individual loan. 4% per month for group village banking loan.</td>
<td>6% per month for an individual loan. 4% per month for group village banking loan.</td>
<td>6% per month for an individual loan. 4% per month for group village banking loan.</td>
<td>6% per month for an individual loan. 4% per month for group village banking loan.</td>
</tr>
<tr>
<td><strong>Interest Rate</strong></td>
<td>6% per month for loan and 4% per month for group village banking loan.</td>
<td>6% per month for loan and 4% per month for group village banking loan.</td>
<td>6% per month for loan and 4% per month for group village banking loan.</td>
<td>6% per month for loan and 4% per month for group village banking loan.</td>
<td>6% per month for loan and 4% per month for group village banking loan.</td>
</tr>
<tr>
<td><strong>Method of charging (flat, declining balance)</strong></td>
<td>Flat.</td>
<td>Flat.</td>
<td>Flat.</td>
<td>Flat.</td>
<td>Flat.</td>
</tr>
<tr>
<td><strong>Application fees</strong></td>
<td>Ush.5,000 loan application form, plus Ush.500 per month as lender fee.</td>
<td>Small Enterprise Programme loan: Ush.50,000 administration fee - decreases with bigger groups. N/A for Village Bank loan.</td>
<td>3% of loan value as application fee.</td>
<td>Ush.3,000 registration fee</td>
<td>Ush.7,000 registration fee and loan orientation training</td>
</tr>
<tr>
<td><strong>Appraisal Fees</strong></td>
<td>None.</td>
<td>None.</td>
<td>None.</td>
<td>None.</td>
<td>None.</td>
</tr>
</tbody>
</table>

**MicroSave – Market-led solutions for financial services**
### Competition Analysis Matrix • Group Loan Products • MFIs in Kampala (cont.)

<table>
<thead>
<tr>
<th>Commission fee</th>
<th>Monitoring fees</th>
<th>Late Payment Management</th>
<th>Pre Payment Incentives</th>
<th>Promotion</th>
<th>Marketing/Information</th>
<th>Advertising</th>
<th>Place/Access</th>
<th>Positioning</th>
<th>Slogan/vision</th>
<th>Corporate image (to be generated after client interviews)</th>
<th>Product Image (to be generated after client interviews)</th>
<th>Physical Evidence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission fee</td>
<td>Monitoring fees</td>
<td>Late Payment Management</td>
<td>Pre Payment Incentives</td>
<td>Promotion</td>
<td>Marketing/Information</td>
<td>Advertising</td>
<td>Place/Access</td>
<td>Positioning</td>
<td>Slogan/vision</td>
<td>Corporate image (to be generated after client interviews)</td>
<td>Product Image (to be generated after client interviews)</td>
<td>Physical Evidence</td>
</tr>
<tr>
<td>Expense/cost is tied by the borrower</td>
<td>Expense both by the borrower/client</td>
<td>Expense both by the borrower/client</td>
<td>Expense/transport both by the borrower</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>1% insurance on value approved in case of accidental death Ush.1,200,000 is paid to the bereaved family plus setting outstanding loan balance, with permanent disability AIG pays off outstanding loan balance to UWFT. In the event of the accidental death of a husband AIG pays Ush.600,000 and Ush.300,000 upon death of any of the four registered children.</td>
<td>1% insurance on value approved in case of accidental death Ush.1,200,000 is paid to the bereaved family plus setting outstanding loan balance, with permanent disability AIG pays off outstanding loan balance to FINCA. In the event of the accidental death of a husband AIG pays Ush.600,000 and Ush.300,000 upon death of any of the four registered children.</td>
<td>1% insurance on approved value for a loan of 6 months &amp; 2% for a loan of 12 months. In case of accidental death, Ush.1,200,000 is paid to the bereaved family plus setting outstanding loan balance. In case of permanent disability AIG pays off outstanding loan balance to FINCA.</td>
<td>1% insurance on approved value for a loan of 6 months &amp; 2% for a loan of 12 months. In case of accidental death, Ush.1,200,000 is paid to the bereaved family plus setting outstanding loan balance. In case of permanent disability AIG pays off outstanding loan balance to PRIDE.</td>
<td>1% insurance on approved value for a loan of 6 months &amp; 2% for a loan of 12 months. In case of accidental death, Ush.1,200,000 is paid to the bereaved family plus setting outstanding loan balance. In case of permanent disability AIG pays off outstanding loan balance to PRIDE.</td>
<td>Group pays up i.e. Pride deducts the default amount from each member in a group of 5. If this still fails to clear the loan it then deducts from each member in a group of 50.</td>
<td>A 50% increase in subsequent loan amounts depending on credit rating which determines the loan size based on multiple of savings.</td>
<td>None</td>
<td>Microfinance with a difference built in order to allow the low income people to help themselves Pride is enterprise.</td>
<td>Economically Empowering Women Small loans big changes.</td>
<td>Business growth loan.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>20% of the loan amount approved</td>
<td>20% of the loan amount approved</td>
<td>20% of the loan amount approved</td>
<td>20% of the loan amount approved</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Ush.2,500 per week and 20% of loan value</td>
<td>Ush.2,500 per week and 20% of loan value</td>
<td>Ush.5,000 per day</td>
<td>A higher interest rate on areas and a red mark indicating securing a small subsequent loan. Ush.5,000 per day.</td>
<td>Group pays up i.e. Pride deducts the default amount from each member in a group of 5. If this still fails to clear the loan it then deducts from each member in a group of 50.</td>
<td>Group pays up i.e. Pride deducts the default amount from each member in a group of 5. If this still fails to clear the loan it then deducts from each member in a group of 50.</td>
<td>None</td>
<td>% of 2% if the loan is retired. (This depends on the performance of the customer i.e only good payers as determined by the loan officer - otherwise clients must prove Pride to get a refund of the L.F.).</td>
<td>None</td>
<td>None</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compulsory Savings</td>
<td>Late payment penalties</td>
<td>Pre Payment Incentives</td>
<td>Promotion</td>
<td>Marketing/Information</td>
<td>Advertising</td>
<td>Place/Access</td>
<td>Positioning</td>
<td>Slogan/vision</td>
<td>Corporate image (to be generated after client interviews)</td>
<td>Product Image (to be generated after client interviews)</td>
<td>Physical Evidence</td>
<td></td>
</tr>
<tr>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>% of total loan value</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>20% of loan value</td>
<td>20% of loan value</td>
<td>20% of loan value</td>
<td>20% of loan value</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Ush.2,000 per (optimal) 25% of loan value for Business Growth Loan</td>
<td>Ush.2,000 per (optimal) 25% of loan value for Business Growth Loan</td>
<td>Ush.2,000 per (optimal) 25% of loan value for Business Growth Loan</td>
<td>Ush.2,000 per (optimal) 25% of loan value for Business Growth Loan</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>

**MicroSave – Market-led solutions for financial services**
3.2.3 How Should I Formulate Strategy Towards The Competition?
The goal is to create competitive advantage of the products through key, sustainable differentiators.
You can attack direct competition to providers of same or similar products – typically through a combination of:
- Price
- Customer Service
- Quality of Product

Beware of competing on price (e.g. interest rate, commission) alone. Such a strategy is costly since through reducing price means less income (unless you make substantial gains in volume) and you may need to spend additional money for advertising and promotion to inform the clients. Finally, price-based strategies very often lead to price war and “commoditisation” of the service.

Price-based strategies are used for direct competition or as protective reaction to threat of substitute and potential competition (dropping yields may discourage competition from attack).

Another alternative is to seek to build a market niche and fortify it from competitors’ entry (barriers) and substitutes. Focus on an important aspect of quality or customer service to niche clients (product design, reliability, confidentiality, speed of delivery etc.). Market niches can be through geographical (e.g. certain region or country) or product specialisation (e.g. certain product on different markets). In building market niche (special combination of product – what we sell, client – to whom, market – where and how), quality of products and services is key as well as distribution type and customer service.

The final alternative is to seek to avoid competition – combination of high quality and customer service with market sharing. There are three alternatives to doing this:
1. Building unique brand
2. Market-product specialisation
3. Market leadership

Formal entry barriers protect firms of EU. Building entry barriers can be done by speeding up innovation processes to make it difficult for others to enter the market through technology and product replication. Another way is to create strategic alliances with potential competitors.

Cooperation between competitors sometimes is very helpful since helps to reduce costs (e.g. licensing, information exchange, innovation, IT infrastructure and marketing). Strategic alliances can be arranged for special purposes to bring additional benefits (barriers for new competitors, lobbying, entering new markets etc.). Your Mission and Values can be the basis for identifying partners and entering cooperation – you do not have to do everything on your own!!
3.2.4 How Do We Get This Information on Our Customers and Competitors?

The financial services market is one of the hardest to research since people’s responses to questions concerning money and their financial affairs are often pre-programmed by society. Furthermore, there are often discrepancies between what people say about financial services and how they actually use them—hence the importance of careful and often non-traditional research.

In general, financial institutions should gather information from both internal sources (such as feedback from front-line staff, simple questions on loan application or account opening forms, and the active mining of data from management information systems) and external sources (most importantly from customers and potential customers, but also from competitors, government and donor agencies, networks and trade associations, and the public media). For details and guidance with respect to the market research process, see MicroSave’s Market Research for MicroFinance Toolkit.

3.3 Step 6: Conduct Institutional Analysis

First and foremost, identify your organisational strengths. This set of organisation strengths is the basis for strategic decisions about competitive advantage development. Strategy should largely be built on developing strengths (do not focus too much on eliminating weaknesses).

Most of strengths, especially in services sector, are intangible assets – staff, brand, systems. Ranking critical success factors against your competitors helps identify comparative and sustainable advantages and disadvantages.

### Why Intangible Assets?

1. Typical tangible assets – buildings, machines – can be used only in a defined place by a few staff. While intangible assets e.g. client database, brand can be used in many places and for different staff for different purposes in the same time.

2. Tangible assets depreciate thus we have amortisation costs. Information can become obsolete but this does not de-capitalise the institution. The same applies to brand, staff loyalty and commitment which should increase in value over time if appropriately managed.

3. An institution with a good brand has more loyal staff and can demand more from them. An institution with an excellent market intelligence system can build such information basis that will help them better understand the market trends than their competitors.

4. Tangible assets can be bought, leased, hired or sold. Intangible assets take lots of time to build. To acquire the intangible assets usually you have to buy the whole organisation.

The research in the UK industry among managers showed that there are key intangible assets particularly important to strategic success:

- Reputation (8-10 years to build)
- Product brands (6 years)
- Acquiring know-how by employees (4-6 years)

“*If you find out more, and more thoroughly, what a customer wants (and why) than a competitor, then everything else you do can be better directed and is more likely to succeed. Conversely, if the finding out process is skimped or inaccurately conducted compared with a competitor, everything else you do is going to be more difficult and stands less chance of success. Take care to identify customers’ needs.”*

~ Forsyth (1998)
Examples of financial institutions’ strengths and weaknesses:

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Qualified, innovative staff</td>
<td>• Speed of loan tracking system</td>
</tr>
<tr>
<td>• Staff dedicated to the mission and vision</td>
<td>• High headquarter staff turn-over</td>
</tr>
<tr>
<td>• Wide range of products</td>
<td>• Security of staff handling and insuring money</td>
</tr>
<tr>
<td>• Simple procedures</td>
<td>• Poor incentive system</td>
</tr>
<tr>
<td>• Strong Brand</td>
<td>• Delinquency in some products and branches</td>
</tr>
<tr>
<td>• Flexibility of products</td>
<td>• Personnel structure within branches</td>
</tr>
<tr>
<td>• Visionary Strong Board of directors</td>
<td>• Lack of strategy to access new markets</td>
</tr>
<tr>
<td>• Market research</td>
<td>• Lack of marketing strategy</td>
</tr>
<tr>
<td>• Leadership role in the sector</td>
<td></td>
</tr>
</tbody>
</table>

3.4 Step 7: Conduct Sector and Macro-environment Analysis

While making strategic choices assess the trends in the sector and macro-environment, which can influence our activity – the Opportunities and Threats.

3.4.1 What Is Sector Analysis?

Sector analysis gives information on trends in your close environment and the stakeholders who have power in and around your business:

- Competitors
- Collaborators
- Investors
- Clients
- Staff
- Networks
- Legislators/Regulators
- Technical service providers
- IT systems developers
- Local elite/politicians etc.

Assess what is crucial for your organisation:

- Strengthening competition – new players on the market?
- Banks targeting low-salary individual segment?
- Law liberalisation for national expansion?
- New e-banking systems?
- Support from an international network?
- Reducing donor interest in providing capital funds? Etc.

3.4.2 What Is PEST Analysis?

PEST analysis examines the external factors that are likely to influence your organisation (to its benefit or detriment). The Political, Environmental, Social (including legal and environmental) and Technological trends are assessed using a PEST framework.

PEST analysis gives this information about macro trends which influence your business (usually in long term):

- Economic growth,
- Interest rate,
- Demography, …

Analysed trends can represent opportunities or threats. Identifying key trends that will give you leverage in building your competitive advantage is key.

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Use an approach that focuses on the dynamics in the PEST factors – notice the trends which are going to influence the sector in the future (months, years) and assess how the trend will influence our organisation – positively or negatively? Remember that every trend can become a threat or opportunity – it depends on how you use it.

“Key is to notice what is unnoticed to others and to transform what appears to be a threat into opportunity” - P Drucker.

Examples of financial institutions’ opportunities and threats:

**Opportunities**
- High demand
- Strengthening entrepreneurs
- Unemployment
- Stable currency in next 3 years
- Low inflation rate
- High rates of interest
- Rural areas neglected
- Economic growth
- Efficient legal system
- Changes in the law
- New legal form options offer possibility of new services
- Professional association offers lobbying force

**Threats**
- Clients increasingly burdened with debt
- Decreasing trust among people
- Increasing unemployment
- High rates of interest
- Increasing competition in financial services
- Reform of the banking system creating uncertainty
- Changes in the law
- Bureaucracy of government
- Lack of quality human resources on labor market

You can use the following table to assess the PEST events and what they mean for the Strategy.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Event / Issue</th>
<th>Threat / Opportunity</th>
<th>Probability / Importance</th>
<th>Impact on Strategic Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>1. 2. 3. 4.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td>1. 2. 3. 4.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social</td>
<td>1. 2. 3. 4.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical</td>
<td>1. 2. 3. 4.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Formulate Your Strategy

4.1 Step 8: Pull It Together With SWOT

The last component of your preparation/analysis for the Strategy is an institutional self-analysis. This analysis is essentially a candid introspection of your institution’s:

- Strengths
- Weaknesses
- Opportunities
- Threats

The strengths and weaknesses describe factors internal to your institution while the opportunities and threats describe external forces faced by your institution, as shown in the SWOT Analysis Framework below. In completing this analysis, you are likely to draw on the macro- and micro-environmental analysis described above, so it is useful if you complete those first.

Be careful not to fall into the trap of assuming that you’ve finished your institutional self-analysis once your list of strengths, weaknesses, opportunities and threats is complete. To make this list useful in the definition of marketing objectives and strategies you need to go four steps further.

1. Prioritise the SWOT analysis to identify which issues (be they strengths, weaknesses, opportunities or threats) are the most important for your institution’s Strategy. This can be done by ranking the issues in their order of importance — the discussion generated is likely to yield important insights. Alternatively, each member of the group can be given 10 points to allocate. A member can give no more than four points to any one issue. This effectively forces the participants to make a hard choice about what is most important to them. Once members of the group finish allocating their points, the numbers are totalled. The issues are then ordered based on the number of points. The highest point total is the most important issue and so on.

2. Examine the extent to which it is possible to match your internal strengths with the opportunities presented by the market environment. Strengths which do not match any available opportunity will be of limited use, while opportunities which do not have any matching strengths cannot be exploited unless you make fundamental institutional changes.

3. Look for weaknesses that you might be able to convert into strengths in order to take advantage of an identified opportunity.

4. Consider whether you can convert any threats into opportunities, which can then be matched by existing strengths.

---

2 See MicroSave’s “Market Research for MicroFinance” toolkit for a detailed description of running Focus Group Discussions with PRA tools and how to conduct simple ranking exercises.

SWOT Analysis Framework

```
<table>
<thead>
<tr>
<th>Internal to the company</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exist independently of the company</td>
<td>Opportunities</td>
<td>Threats</td>
</tr>
</tbody>
</table>
```

Conversions

Source: Ennew, et al. (2000)

SWOT analysis helps to make strategic decisions according to a simple (in theory!) rule:
- Avoid threats
- Use opportunities
- Base on strengths
- Improve weaknesses

4.2 Step 9: Formulate Your Strategy

4.2.1 How Do I Formulate Strategy From All This Information?
On the basis of the diagnosis of your institution’s current position, it is now time to look formulating your Strategy. This is best done by addressing three key issues:
1. Choice of market and scope of operations
2. Strategy towards the competition
3. Competitive advantage development/maintenance

4.2.2 How Do I Plan My Future Market And Scope?
As you examine the market and scope for your institution in the future, it is worth re-examining the past and current situation and responding to the following questions:
1. What strategy has your financial institution been following (within the framework of the Nine Growth Strategies Matrix – see diagram below)?
2. What has been the reason for such choice?
3. Has the strategy been successful?
4. Why/why not?
5. What are the pros and cons of continuing the current strategy?

And thus begin to answer the strategic questions pertaining to the future:
6. What are the opportunities/needs to shift to enter new/modified markets or widen the needs served by our institution?
7. Which strategy could be a good choice for your institution in longer term?

To answer these questions it is necessary to look at:
1. What is your core market now?
2. Who and with what my organisation is going to serve?
   - Serving few needs of several segments
   - Serving broad needs of one-two segments
   - Serving broad needs of many clients in narrow market
3. What are possibilities to penetrate existing market?
4. What are possible other markets (segments, countries …) which you could enter using your strengths and value proposition?
• Where you can deliver better value than competitors?
• Where you can deliver the same value at the lower cost?

To answer/assess these questions re-examine the SWOT analysis that you have just completed!

<table>
<thead>
<tr>
<th>Markets</th>
<th>Products (Scope)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Existing</td>
</tr>
<tr>
<td>Existing</td>
<td>Sell more of our existing products to our existing types of customers (Market penetration)</td>
</tr>
<tr>
<td>Modified</td>
<td>Enter and sell our products in other geographic areas (Geographic expansion)</td>
</tr>
<tr>
<td>New</td>
<td>Sell our existing products to new types of customers (Segment invasion)</td>
</tr>
</tbody>
</table>

4.2.3 And What About the Value Proposition?
In addition, you will need to formulate the value proposition you are offering the clients. This can be done by answering two questions:
• What is my competitive advantage? and
• How I can use it for creating sustainable value proposition to my strategic segments?

The diagram below outlines the key components of most value propositions for financial services. The weight applied to the different components defines the value proposition.

Thus an organisation focusing on *Operational Excellence* will stress the product offering’s on-time delivery of high quality services at a reasonable price, and will have a brand focused on efficient and client responsive services.

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Thus an organisation focusing on **Product Leadership** will stress the product offering on high quality services that offer advanced functionality and respond to clients’ needs, and will have a brand focused on product leadership and being the best in the market.

Thus an organisation focusing on **Customer Relationship** will stress the offering’s convenience/comfort, the trust underlying it relationships with customer and how the organisation responds to the needs of its clients, and will have a strong and carefully nurtured brand focused on the organisation’s closeness to its customers.

### 4.2.4 And My Competitive Advantage/Strategy?

As you complete your thinking on this aspect of your Strategy consider:

- What is/are your strategic market/s?
- What is your competitive advantage (based on my unique strengths)? What will be your value proposition for this market/s?
- Will you be able to create a sustainable competitive advantage in your chosen market:
  - Think about your competitors response to your strategic move
  - Thank about your competitors move in the future
  - How difficult is it to replicate your competitive advantage?

On the basis of the above you should be able to pull together a succinct summary of your institution’s Strategy.

### 4.2.5 Can You Give Me Some Examples Of Strategies?

Sure, here are a couple from the commercial banking sector! The principles under-lying them are entirely applicable to microfinance.

**Example Strategies:**

1. **Strategy of a Retail Bank:**

<table>
<thead>
<tr>
<th>Target market</th>
<th>Individuals: financially educated, looking for wide range of services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market and Scope</td>
<td>Broad needs of 2 segments: Standard and Prestige – high income individuals</td>
</tr>
<tr>
<td>Market growth strategy</td>
<td>Market penetration</td>
</tr>
<tr>
<td>Value proposition</td>
<td>Wide offer of banking services (deposits, credits, cards, mortgage loans, transfers, stock exchange account)</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>Modern innovative financial provider of wide range of products</td>
</tr>
<tr>
<td>Strategy towards competition</td>
<td>Product leadership</td>
</tr>
<tr>
<td></td>
<td>Penetrating market niche being fortified by wide range of constantly improved offering</td>
</tr>
</tbody>
</table>

**Our Retail Bank’s Strategy:**

- We will provide a wide range of banking services for individual, targeted clients in order to grow revenue through cross-selling.
- We will constantly adjust our offer to clients needs in response to their needs, which we will constantly assess through an on-going programme of market research.
- We will set the lowest price on the market for a few highly demanded products in order to acquire individual clients and then to offer them bundled products.

**Our Retail Bank’s Growth strategy:**

- Continue in existing markets, but focus on strategic segments.
- Product modification and market penetration to serve strategic segments.
2. Market Entry Strategy of a New Internet Bank:

| Target market                                      | • Few needs of broad segment  
|                                                  | • Individuals - trend setters, pioneers, looking-for-innovation clients, young professionals (more mass market in long term) |
| Market growth strategy                            | • Developing new internet banking products via internet in long term |
| Value proposition                                 | • Basic banking services for mass market via internet  
|                                                  | • Functionality, fast access, zero defects in internet transactions |
|                                                  | • Price  
|                                                  | • Internet leader |
| Competitive advantage                             | • Operational effectiveness  
|                                                  | • Technological innovation |
| Strategy towards competition of trend setters     | • Attack - high interest in deposits, free money payments to build first a niche of trend setters to further expand to other markets and diversify products |

My Internet Bank Strategy to gain considerable market share by:
- Targeting individuals who are pioneers and trend setters.
- Using internet channel - in very effective, functional way.
- Zero defects in activity - building reliability for internet bank.
- Offering lowest prices for basic banking services.

My Internet Bank’s growth strategy:
- New markets - target strategic segment (pioneers).
- Market expansion to other segments and product development – introduction of other banking services using internet technology.

4.2.6 Must I Differentiate My Institution?
Yes! Within strategy you must decide in what areas to be the best - to be different. You can not be the best in every business process so it is necessary to make trade-offs and decide what not to do. Strategy is focused on set of activities in what your organisation decided to excel – other activities should meet the sector standards, but they are not mentioned in strategy formulation and implementation. Strategy is a guide for change within your organisation.

Typically, when MFIs plot themselves on this simple differentiator map, the majority place themselves near the service point of the triangle. This indicates that customer service is generally quite important to overall business strategy in the microfinance industry. In a market where all MFIs are seeking to differentiate on the basis of “Convenient, customer-oriented service”, your institution might want to focus on an offer that combines Quality and Price as differentiators. Whichever you chose, it must be aligned with your institution’s Mission, Values and Vision and will drive your brand.

Remember: No Recipes!
- There are no ready schemes for creating a strategy
- Competitive advantages and value propositions are very often mixtures of “theoretical” concepts
- Do not ever underestimate your intuition and “feeling” – just remember to test them with data collection and analysis …
- Use the 80/20 rule – and live with imperfect information
- Strategy is much closer to art than to science

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Develop The Financial Projections

5.1 Step 10: Develop Financial Projections

Now you have a Strategy, it is time to develop the Financial Projections. These projections will necessarily be first draft and will be amended as we develop the Business Plan (KOGMA Analysis) and thus plan the implementation of the Strategy. But now is the time to take your strategic choices and model them to develop the Financial Projections.

The types of questions that you should be answering in this step are:

- What resources (financial, technological, human, physical etc.) are required to implement the Strategy?
- Are these resources assured?
- Will you need to recruit, place and train management and front-line staff?
- Does the implementation of the Strategy require the reallocation of resources within your organisation?
- In view of the available resources does the Strategy make sense or will it need modifying?

At this stage you will have to decide how to model the financial projections. Many MFIs use the MiroFin model (this can be downloaded from the CGAP website and is the most sophisticated MFI-specific modelling software). Some have found Microfin a little too inflexible and/or complex and have preferred to set up their own Excel spreadsheets.

Use which ever model you find the most appropriate for your needs/capabilities … the most important thing is to model your projections and examine the viability of your strategy! You should also use the spreadsheet to conduct sensitivity and “what if” analyses in order to understand:

- The most important revenue/cost drivers.
- The risks/vulnerabilities of the strategy.
- The opportunities/areas which will require particularly careful focus during implementation (this will drive your Key Objectives in the KOGMA Analysis).

Remember these Financial Projections will change as you prepare your KOGMA Analysis … and (of course) as you get more information as the implementation process moves forward. The KOGMA Analysis will reveal areas that require:

- Particular attention/budgetary allocations …
- and potentially
- Additional opportunities to increase revenue/reduce costs.
Execute Your Strategy Through KOGMA Analysis

6.1 Overview of KOGMA Analysis

6.1.1 Why Do Strategies (So Often) Fail?
A 1999 Fortune Magazine story suggested that 70% of CEOs’ failures came not as a result of poor strategy but of poor execution. It is difficult for firms to differentiate an ongoing complex effort to realise strategy from every day trouble shooting. Very often the consequence is that strategy is developed by board and management or consultants and it ends up in the shelf in form of document that is dead on delivery. Operational management has its own problems and quick fixes quickly become the organisational routine. These eliminate the implementation of any strategy with its difficult choices of preferred clients and products, cost, quality and service policies. Thus the most important is to institutionalise strategy implementation in everyday operations through clear key objectives, goals, performance measures and activities.

Guidelines for Deploying Your Strategy

Organize voluntary meetings at which you explain the strategy. Ask the three key questions:
1. What is the strategy as you heard it?
2. Why is it personally important to you?
3. How do we need to work differently together?

Be a facilitator of dialogue. Get people to talk with each other about the strategy, not to you as the boss. But listen to what they’re saying! Document key points made by participants and share them with others. Use the best suggestions as bases for process improvements.

6.1.2 What Is KOGMA Analysis?
KOGMA stands for Key Objectives, Goals, Measures/targets and Activities – together these provide a clear, simple framework for he implementation of your Strategy.

To implement your strategy you will need to focus on these critical issues and which drive the Key Objectives. It is all too easy to get lost in a wide variety of activities … many of which are often
relatively unimportant! Identifying the Key Objectives necessary to implement your strategy will help you to:

- Prioritise and focus on the critical issues - *What Really Matters*
- Help all staff see how their work contributes to the vision and the strategy to achieve it

KOGMA Analysis is based on the Structure Tree approach developed by George Labovitz and Victor Rosansky – see “The Power Alignment”, John Wiley and Sons. It provides an intuitive approach to:

- Identifying the **Key Objectives** for achieving the mission/vision of the organisation and then …
- Setting the **Goals** that must be achieved to meet these Key Objectives as well as …
- The **Measures/Targets** and
- The **Activities** necessary to achieve the goals.

This analysis then allows you to develop your strategic business plan in a participatory manner thus:

- Getting inputs/insights from all levels
- Building buy-in/understanding at all levels
- Optimising implementation

It also allows you to describe and communicate your strategic plan in a succinct manner so that everyone can see their role in delivering on the plan.

**Example of Use of Structure Tree**

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Example of a KOGMA Analysis from OurMFI in India:

<table>
<thead>
<tr>
<th>Mission/Vision</th>
<th>Key Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission: “To provide high quality, client-responsive financial services to the poor.”</td>
<td>Develop professional organization culture committed to serve the poor</td>
</tr>
<tr>
<td>Vision: “To be the largest and most valued MFI in the state”</td>
<td>Upgrade skills of key staff</td>
</tr>
<tr>
<td>Strategy Statement</td>
<td>Understand and respond to the needs of the poor for financial services</td>
</tr>
<tr>
<td>&quot;In the next 10 years we will transform OurMFI to become the market leader in microfinance in Okedhra State. We will do this through redesigning products &amp; systems and retraining staff. The strength of the organisation will then allow us to raise capital to significantly expand the geographic reach of OurMFI’s business.”</td>
<td>Implement strong systems and processes</td>
</tr>
</tbody>
</table>

OurMFI has then analysed the Goals that must be achieved in order to meet the Key Objectives.

Measures and Targets are then identified for each of these Goals so that OurMFI can evaluate its progress towards achieving these. In turn Activities are planned in order to meet these Targets and thus the Goals.

Returning to the example of Equity Bank, if we examine the Key Objective of “Develop A High Quality Asset Portfolio”, we can see that four Goals were considered essential to meet this Key Objective.

- In the case of Equity Bank, they saw the need to 1. maximise the return on all their assets: from yield on portfolio to yield on treasury investments (the latter being particularly important given the highly liquid state of the bank). Similarly, Equity understood that it needed to 2. re-train its staff and support them with 3. new approaches/methods to assessing loan applications, issuing and recovering loans (in all of the wide variety of credit products offered by the bank). Finally Equity recognised that 4. its credit management systems required tightening and improvement if it was to achieve the Key Objective of building a high quality asset portfolio.

Note how the Mission/Vision and Strategy drive the Key Objectives.

The Key Objectives are, in Labovitz and Rosansky’s terms, the “Critical Success Factors”, that must be in place for OurMFI to implement its Strategy and meet its Mission/Vision.

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Each of these Goals was then assigned a series of Measures and Targets and the Activities necessary to meet those Targets were then planned and responsibilities were assigned.

It is important to note that many (and often most) of the Measures are outcome rather than process focused. For example while Equity Bank decided to use International Benchmarks to assess compliance and to ensure the organisation sent managers to examine opportunities to learn from credit methodologies elsewhere in the world, the remaining three Measures focused on Portfolio at Risk, Write Offs and Provisioning.

The Targets must be specific, measurable, achievable, results oriented and time bound … in short SMART! The Activities are planned to meet those Targets are planned and the departments/individuals responsible for their implementation are clearly defined so that their performance can be assessed.

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**Equity Bank’s Strategic Planning and Change Management Process**

The development of a common vision and strategic plan for achieving it was implemented within a lengthy, participatory process facilitated by Stepwise Management (a consulting firm based in Germany). Months of staff time was spent developing mission, values and vision, assessing Equity’s strengths, weaknesses, opportunities and threats, preparing a “structure tree” outlining critical success factors, “stretch goals”, targets/activities and measures. This process allowed Equity to bring its strategic plans and goals into framework that was easy to communicate and thus “operationalise the clarity of focus”.

By the end of 2004, all senior and middle management had played a role in developing and internalising the strategic plan. By the middle of 2005 everyone within Equity knew, and had bought into, the institution’s plan and understood the roles they played in achieving it. Amid the turmoil of explosive growth, Equity had achieved a common vision and was harnessing the power and commitment of all 845 staff working in the same direction to realise it. In the words of one Assistant Branch Manager, “before … we just went to work to work. Now we are going to work to achieve goals. Please make sure we have goals all the time.” With this commonality of vision and understanding of the strategic plan and the activities necessary to achieve it, Equity was able to further delegate responsibility and empower managers.

“As a result of this high alignment employees and managers had a frame of reference for their high level of empowerment. Being an employee at Equity Bank very fast became a kind of status symbol. Equity Bank attracts the most talented people in the country to join the bank as an employee and to work at Equity Bank’s mission and vision” – Frank Kretzschmar, Stepwise Management.

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5 By 2004 Equity had been able to recruit senior professionals from all the major banks in Kenya, the Central Bank of Kenya, Safaricom, East African Breweries, Selectron, USA and Reuters South Africa.

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6.1.3 So Why Is KOGMA Analysis Valuable?

It is a framework – not a panacea – that helps you to identify the Key Objectives and Goals necessary to implement the strategy. The institution chooses the activities to be measured and these are informed and guided by the analysis of your environment. KOGMA makes you display what you want to achieve, and forces people to do something about that you decide is important … about What Really Matters.

Like the Balanced Score Card, KOGMA takes the emphasis away from purely financial indicators and balances these with the non-financial indicators that often drive the overall performance of the institution. We need to move beyond looking at and planning with financials alone:

- In today’s business reality, value is not captured in tangible, fixed assets of the firm, but in people and relationships with and within the institution … those intangible assets. Tangible assets no longer serve as primary driver of enterprise value. Link to intangibles discussed before: customer/stakeholder relationships, culture of innovation and change. People buy a promise of value. Traditional financial measures compare previous periods, are results of historical performance. These do not provide you with early signals/indication of client, quality, staff problems or opportunities.
- In reality, financial results simply provide rear-view perspective of past performance: they are not indicators of future performance. You may be performing well now but you can close down in the future. For all financial institutions, financial stability is important so you need to be forward thinking – how will you secure your long-term financial stability
- Furthermore, financial statements are prepared by functional area and reinforce functional silos of information – whereas KOGMA Analysis allows all departments to understand the larger plan and the role they play in it. Furthermore, staff at all levels need performance data they can act on. This data needs to be relevant to their every day activities. Financial metrics will not be god for every job.
- Looking at financials for cost-cutting strategies may not result in long-term gains.
- Many MFIs have social impact goals: they need non-financial and financial measures to motivate and evaluate their performance.

KOGMA Analysis can:
- Clarify current strategy/introduce new strategy
- Align strategic plans/improvement initiatives
- Align employee goals to institutional goals
- Communicate to and educate staff
- Help you weather business crisis
- Set new targets for the institution
- Integrate new leadership

KOGMA Analysis provides a participatory method for strategic planning, thus creating better “buy-in”. It should improve tracking and management of gaps in implementation and provides a measurable and manageable basis for performance evaluation. It allows improved communication and awareness of strategy and what really matters as well as enhancing management capabilities by informing decisions in the context of the “big picture”.

Implementing a successful KOGMA Analysis exercise requires:
- Involving staff at all levels, all the time … in a participatory effort spear-headed by the KOGMA Analysis team of up to 10-15 people. The team should be interdisciplinary – representing all your departments – and include managers and knowledgeable KOGMA “ambassadors” from different levels:
  - Senior staff: insight into strategic directions
  - Middle management: will be tasked with translating strategies and policies into action
  - Front-line: likely to be first affected by change, knowledgeable about day-to-day operations

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The team should include complementary skills, different perspectives and a mix of thinkers and doers (will make sure that goals are realistic and are accomplished):

- During the development, constant, fearless critique and refinement of the KOGMA analysis – through an iterative, participatory process
- Change management!!! How is all of this good thinking to be implemented as quickly and efficiently as possible?
- Using the measures/targets to assess performance and achievement … as well as to focus on areas where the gaps between the Targets and Measures are not decreasing as the Activities are implemented.
- And above all … Action! Is it encouraged? How is it measured? How is it rewarded?

6.2 Step 11: Identify Key Objectives

6.2.1 How Do I Identify Key Objectives?
By now, the planning team should have a shared understanding of the institution’s current situation, internally and externally. Its focus shifts from a “here and now” perspective to a more future-oriented one. It uses the conclusion of the SWOT analysis to identify issues critical to the institution’s future, ones that must be addressed so the institution can carry out its Mission.

A critical or strategic issue is generally framed as a challenge over which the institution has influence. It can be described as a fundamental policy question or important challenge that affects the institution’s:

- Mandates, mission and culture;
- Product or service level mix;
- Clients or users; or
- Costs, financing, organisational structure, or management.

An institution can experience negative consequences, if it fails to effectively manage its critical issues. Generally, a critical issue involves some type of conflict. The conflict most frequently centres around elements such as:

- What will be done?
- Why will it be done?
- How will it be done?
- When it will be done?
- Where it will be done?
- Who will do it? and
- Who will be favoured or disadvantaged by it?

Because a critical or strategic issue can significantly affect the institution’s capabilities and direction, it demands extensive analysis. The institution should develop a precise statement of the issue that captures the essence of the situation by:

- Describing what it is;
- Why it is important;
- How the institution knows it is an issue; and
- The likely consequences of ignoring it.

This statement is vital for developing strategies to manage it.

While identifying issues can be contentious, the level of tension it produces may very well fuel change. The balance rests with generating enough pressure to get action while not so strong as to induce paralysis. An effective planning exercise should focus decision makers’ attention on the most strategic issues.

6.2.2 Can You Give An Example?
Sure let us take the example of an Non Bank Finance Corporation in India:

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Example: Critical issues facing an Non Bank Finance Corporation

1. Given the need for low-cost capital to expand the outreach of the institution and thus achieve economies of scale, should we mobilise voluntary savings from clients? Alternatives, such as borrowing from commercial banks and international “patient capital” funds remain relatively expensive and do not offer clients the valuable service that a range of savings products could.

2. Given the capital adequacy requirements of 12.5% and the likelihood that a significant mobilisation of voluntary savings will take us below this, should we seek additional equity investments from a) existing shareholders and/or b) international “patient capital” equity funds? If we are unable to attract such investors we are likely to be subject to sanction by the central bank.

3. Given the donor environment that is mandating sustainability and outreach, and the government’s refusal to further subsidise agricultural lending, should we increase interest rates to greater than 18% on reducing balance? If we do not the profitability, and eventually sustainability of the institution may be compromised.

6.2.3 How Do I Move From Critical Issues To Key Objectives?

The strategic business planning team must thoughtfully consider alternative solutions to the critical issues – from these it will derive its Key Objectives. Frequently, organisations move quickly from issues to the adoption of solutions, latching onto the first solution that comes to mind. If the institution expects the strategic business planning process to develop better solutions by looking at an array of potential responses, it should not rush from issue to a solution. This denies the institution the chance to build its strategic thinking skills. While initially difficult, through repeated use, the institution will build strong strategic thinking skills that bring long term dividends.

Finding viable solutions or responses to critical issues takes a through understanding of the issue, the challenges it presents to the financial institution, and the advantages and disadvantages of the alternatives. While the team looks at each alternative, it should look for any potential barriers to achieving it’s the Key Objectives. A healthy debate about the effort required to surmount a barrier can possibly uncover likely implementation problems. This gives the institution the chance to decide if it wants to overcome the barrier or to abandon that alternative. Awareness of the realities before committing to action can save the institution a great deal of time, resources and frustration. After exploring its options, the team chooses which Key Objectives to include.

The critical issues and the potential solutions to them will allow you to identify the Key Objectives necessary to translate your Strategy into action! There are, of course, many things your institution could do but … remember to prioritise and focus on What Really Matters! Typically an organisation will have only 6-10 Key Objectives – and thus retain FOCUS.

It is important to ensure that your strategy is clear in the minds of all who are working on brainstorming the Key Objectives. It helps to begin Key Objectives with action verbs: increase, reduce, initiate, develop, reinforce, minimise, improve …

The Key Objectives set strategic direction at the institutional level. They channel the institution’s actions in a clearly defined way. They are detailed enough to guide, but not so specific that they hamper innovation and creativity. They should not be a restatement of the institution’s mission, nor reflect “business as usual”. It is normal to use around 10 years as the planning horizon.

Key Objectives are bridge between high-level strategy and specific performance Measures you will use to determine progress to overall Goals and thus good objectives represent a faithful translation of your strategy. Ask yourself: will achievement of this Key Objective lead to the successful strategy execution?

When you develop the Key Objectives remember that:

- Key Objective statements should be challenging, yet realistic in terms of what the institution reasonably expects to accomplish.
Key Objectives address priorities and the results of the SWOT by addressing the management of critical issues.

Key Objectives collectively should provide enough detail to guide operating decisions, yet be flexible enough to generate creativity and innovation.

Key Objectives should not conflict with one another.

Key Objectives should be written in clear, simple language, which can be easily understood by all MFI staff as well as the general public.

Key Objective statements should be brief and to the point. One or two sentences are generally adequate. In some cases, the institution may need longer Key Objective statements, but short direct ones are usually best.

The strategic business planning team may use any or all of the following questions to facilitate the Key Objective development process:

- Do the Key Objectives address critical issues confronting the institution?
- Do the Key Objectives chart a clear course for the institution?
- Are the Key Objectives consistent with the institution’s mission and mandates, and any further guidance from top management?
- Do the Key Objectives reflect the core business activities and strategic direction for the institution?
- Are the Key Objectives realistic, achievable, and challenging?

MyMFI As An Example Of Linking Key Objectives To Mission/Vision

MyMFI’s Mission: To provide customer-responsive financial services to the people of MyCountry.

My MFI’s Vision: To serve 250,000 low-income customers with a range of credit and insurance products and thus to become recognised as the most customer-responsive MFI in MyCountry by 2015.

MyMFI’s Key Objectives:
1. Implement new IT system
2. Increase computer literacy amongst all staff
3. Improve cost-efficiency of credit processes
4. Achieve financial sustainability
5. Secure long-term debt on commercial terms
6. Reduce transaction costs for customer
7. Secure an agency agreement with one of the major insurance companies
8. Empower staff to act as financial advisors

6.2.4 How Do Ensure That My Key Objectives Are Clear Enough?
After you have identified the Key Objectives, it is often a very useful exercise to take your 6-10 Key Objectives and clarify them using objective statements in order to check that they:

- They provide precise clarification of the meaning suggested by the objective
- They outline why this objective is important to clients, employees and other stakeholders
- Briefly discuss how the objective will be accomplished

Example of Clarifying A Key Objective With An Objective Statement

Objective: Attract, develop, retain talent

Objective statement: Knowledgeable and experienced employees are the key to our success. Our objective is to reduce staff turnover and recruitment challenges by creating an appealing work environment built upon role clarity, personal motivation, satisfaction and accountability. We will provide all employees with an opportunity to directly impact office-wide performance and achieve goals that meet clients’ needs.

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6.3 Step 12: Set Goals

The next step is to set the Goals that must be achieved in order to achieve the Key Objectives. Again focus on the issues that really drive the achievement of the Key Objectives. **Typically you will have 1-4 Goals for each Key Objective.** Remember the more Goals you have the more complex implementation and creating effective change will be … so focus on **What Really Matters!!**

Returning to the example of OurMFI, we will examine which Goals were set by OurMFI’s team to achieve their Key Objectives.

<table>
<thead>
<tr>
<th>Key Objective</th>
<th>Mission/Vision</th>
<th>Strategy Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maintain a high quality asset portfolio</strong></td>
<td>“To provide high quality, client-responsive financial services to the poor.”</td>
<td>“In the next 10 years we will transform OurMFI to become the market leader in microfinance in Okedhra State. We will do this through redesigning products &amp; systems and retraining staff. The strength of the organisation will then allow us to raise capital to significantly expand the geographic reach of OurMFI’s business.”</td>
</tr>
</tbody>
</table>

In order to achieve the Key Objective of maintaining a high quality asset portfolio, OurMFI believes that it must:
- Improve its group formation and recognition system.
- Revise its repayment incentives for group members and staff.
- Revise and improve its credit monitoring and reporting system.

6.4 Step 13: Select Measures

The Measures will guide and drive your organisation’s efforts to achieving the Goals, and are therefore central to the effective implementation of your strategy. Measures must be selected with the greatest of care!

6.4.1 Why Measure Performance?
Performance should be measured because:
- Measuring performance is good management. Establishing performance measures provides accountability for results from the strategic business plan.
- Measuring performance can enhance the quality of services. Performance measures inform MFI staff of customer needs and levels of satisfaction and make it possible to identify action to improve quality and reduce costs.
- What gets measured gets done. Most people want to do a good job. Performance measurement helps managers and employees focus on what is important. By comparing actual with expected results, it enables managers, staffs and other state holders to evaluate progress towards goals and objectives.

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Measuring performance aids in budget development and review. Performance measures are valuable in the budget development process. They allow a more accurate assessment of resources needed to support activities. They also help identify what kind and level of product or service will be provided for the amount of resources available.

Measuring performance helps institution’s answer the question “Why are resources being spent on these activities?” Performance measures also bring greater clarity to the development process and provide civil society with a more meaningful sense of the results that will be attained with their resources.

6.4.2 What Are The Categories Of Performance Measures?
Performance measures: used to measure results and ensure accountability. The strategic business planning model incorporates five common performance measures:

1. Input
2. Output
3. Outcome
4. Efficiency and
5. Quality.

Each category is designed to answer a different question and must often be used in combination to analyse an institution’s results.

**Inputs** measure the amount of resources needed to provide particular products or services. Inputs include labour (staff), finance, materials, equipment and supplies and can also represent demand factors, such as target populations. Input measures are useful in showing the total cost of providing a service, the mix of resources used to provide the service, the demand for services, and the amount of resources used for one service in relation to other services.

<table>
<thead>
<tr>
<th>INPUT MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of clients eligible for the microfinance programme.</td>
</tr>
<tr>
<td>Number of customers requesting service (e.g. loans).</td>
</tr>
<tr>
<td>Number of loan applications received.</td>
</tr>
</tbody>
</table>

**Outputs** measure the amount of products or services provided. Outputs focus on the level of activity in a particular programme or sub programme. Workload measures, which are designed to show how staff time will be allocated to respond to service demand, are most commonly reported. Outputs are useful in defining what a programme produces. However, they are limited because they do not indicate whether the programme goals have been accomplished, and they do not reveal anything about the quality or efficiency of the service provided.

<table>
<thead>
<tr>
<th>OUTPUT MEASURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of loan applications approved</td>
</tr>
<tr>
<td>Number of clients trained</td>
</tr>
<tr>
<td>Number of loans inspected or verified.</td>
</tr>
</tbody>
</table>

**Outcomes** measure whether services are meeting proposed targets. Outcomes reflect the actual results achieved as well as the impact or benefit of programmes. Both intermediate and long-term outcomes can be evaluated. Most senior managers are generally most interested in outcome measures. Yet, information about the ultimate result is not always available or practical to measure. In these instances,
it may be necessary to use proxy or surrogate measures. For example, completion of the 12th grade is not the same as literacy, but it may be the measurement that comes closest, and the one that can currently be measured. Likewise, prompt repayment by clients could be indicative of clients benefiting from enterprise they (had) started with a microfinance loan.

**Outcome Measures**

<table>
<thead>
<tr>
<th>Example</th>
<th>Outcome Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage reduction in loan delinquency</td>
</tr>
<tr>
<td></td>
<td>Reduction in incidence of defaults.</td>
</tr>
<tr>
<td></td>
<td>Percent increase in repeat loans for clients</td>
</tr>
<tr>
<td></td>
<td>Percent increase in new businesses started by clients.</td>
</tr>
</tbody>
</table>

Output measures are often mistaken for outcome measures. Outcomes assess how effective or successful the microfinance programme has been. Outputs alone cannot tell management how successful the programme has been. How much work a programme does is different from how well programme is working.

The following illustrates the difference between outputs and outcomes.

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of clients given loans</td>
<td>Is not the same as</td>
</tr>
<tr>
<td>Number of clients trained in delinquency management.</td>
<td>Clients starting a business after taking a loan</td>
</tr>
</tbody>
</table>

**Efficiency** measures are also known as productivity measures. Efficiency can be measured in terms of the cost per unit of output, the ratio of outputs per unit of input and the ratio of outputs per unit of time. Ratios help express the relationships between different performance measures to convey more information about the productivity and cost effectiveness of a microfinance programme.

<table>
<thead>
<tr>
<th>Example</th>
<th>Efficiency Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Output/input: Number of clients with loans to number of clients enrolled.</td>
</tr>
<tr>
<td></td>
<td>Time/Output: Turnaround time per application processed.</td>
</tr>
<tr>
<td></td>
<td>Cost/Input: Cost per client.</td>
</tr>
<tr>
<td></td>
<td>Cost/Outcome: Cost per client with a successful microenterprise.</td>
</tr>
</tbody>
</table>

**Quality** measures reflect the effectiveness in meeting the expectation of customers and stakeholders. Measures of quality include reliability, accuracy, courtesy, competence, responsiveness and completeness associated with the product or service provided. Lack of quality can also be measured: the resources that will be devoted to performing rework, correcting errors or resolving customer complaints. Both the positive and negative sides of measuring quality can be important to track.

<table>
<thead>
<tr>
<th>Example</th>
<th>Quality Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of non-delinquent loans compared to number of all loans</td>
</tr>
<tr>
<td></td>
<td>Number of borrowers with highest credit rating related to total number of borrowers</td>
</tr>
<tr>
<td></td>
<td>Percentage accuracy of information entered in the database.</td>
</tr>
</tbody>
</table>

*MicroSave – Market-led solutions for financial services*
Examples of (performance) Measures often used by financial institutions include:

- Sustainability
- Revenue growth/mix
- Accuracy of reporting
- Cost reduction
- Productivity
- Client satisfaction/retention
- Cost of processes
- Client acquisition/profitability
- Return on investment/assets

- # of clients served
- % of drop-outs/dormant accounts
- Quality of processes
- Response time
- Market share
- New product introductions
- Employee satisfaction/retention
- Employee productivity
- IT system availability

6.4.3 So Which Measures Should I Choose?

How many measures? As a rule of thumb 1-3 per objective. The fewer the measures the better (although they need to reflect well what we are measuring). There is a lot of noise in modern organisations and a good KOGMA analysis should provide a view of real drivers of success in your organisation. Focus on strategic measures – real drivers of success. If something seems wrong than you will get into more in-depth investigation. Don’t get trapped into operational measures!

Ensure that the Measures you select are:

- **Meaningful** - significant and directly related to the Mission, Vision, Key Objectives and Goal.
- **Valid** – represents what is being measured
- **Responsibility linked** - matched to an organisational unit responsible for achieving the measure.
- **Customer focused** – reflect the point of view of the customers and stakeholders.
- **Comprehensive** - when taken together, the set includes all key aspects of institution’s programme performance.
- **Balanced** – the set includes several types of measures - i.e., outcome, efficiency and quality measures.
- **Credible** - based on accurate and reliable data.
- **Cost effective** - based upon acceptable data collection and processing costs.
- **Compatible** – integrated with existing financial and operational systems.
- **Comparable** – useful for making comparisons with other data over time.
- **Simple** – easy to calculate and interpret.
- **Useful** – accurately captures progress over time.
- **Easy to understand** – so that it can use as communication and alignment tool for your staff
- **Updated frequently** – you launch planning exercise to improve results thus you need timely information i.e. updated monthly or quarterly. You need to allow room for corrections
- **Average-cautious** – look for the right metrics so that they do not aggregate and hide important issues
- **Quantitative** – reflect objectivity as much as possible. Quantitative are better for this. With a little bit of creativity you will be able to translate anything into a number. E.g. distribution of trauma reports in a timely fashion can be translated into % of trauma reports distributed on time
- **Not dysfunctional** - Dysfunctional measures are driving wrong behaviour in the organisation. E.g. consider the example of a restaurant chain. Concerned with a large amount of food being thrown away at the end of the day, managers instructed their staff not to cook any food within one hour of closing until ordered by a client. Great for waste but bad for client service. Clients had to wait for ages and as consequence the business dried up. Measuring waste in this case drove the wrong behaviour. Consider the behaviour your measures will drive before including them.
Key Issues in Choosing Measures

Inputs are generally easiest to collect. Outcomes tend to be the most difficult. Recognise that it is difficult to get staff and management to focus on more than activities. Try to balance the collection process to include outcomes, efficiency and quality measures.

Keep in mind that efficiency measures can be expressed as ratios of outputs and outcomes to inputs. Strive to define a balance of different types of measures for each goal. Because they are interrelated, measures cannot be considered in isolation. For example, increasing quality of microfinance services cannot be accomplished without regard to cost.

Once Measures are decided on, institutions need to:
- Determine data requirements,
- Identify current baselines,
- Set realistic performance targets based on benchmarking, and
- Compare actual performance with expected results.

To assist MFIs, MicroSave offers a logical system to dissect and record all pertinent information about performance Measures. The Handout 9.3 Performance Measure Summary Form can be completed for each performance measure at institutional, unit and subunit levels. The Performance Measure Summary Form ensures a detailed history of each Measure can be accessed easily by all staff.

6.5 Step 14: Set Targets

6.5.1 How Do I Set About Benchmarking?
Once performance measures have been chosen, use benchmarking to establish performance targets. Benchmarking involves seeking out best performers inside or outside of your institution, studying them to determine why they are the best at what they do, and applying what is learned.

Potential benchmarking partners can be identified through:
- Previous studies
- Literature from national/international sources (for example the MIX)
- Awards given to organisations
- Business/government press literature, and
- The internet.

Benchmarking data may represent:
- Professional, national, or accreditation standards
- Quality practices
- The highest or lowest rating (whichever is more desirable) in a given issue or field
- Performance
- Workload
- Levels set in statutes, regulations, or official guidelines.

In a world class financial institutions, benchmarking is not viewed as a one shot study, but rather as an on going process through which performance standards are set and revised.

6.5.2 How Do I Set Performance Targets?
Performance targets are quantifiable estimates of results expected for a given period of time. Setting performance targets is an art. The following criteria may help:
- Should be developed by those who will be held accountable;
- Should include input from customers and stakeholders;
- Should include final and annual incremental targets;
- Should be derived from benchmarking and best practices, where available;
- Should represent realistic expectations toward meeting goals and objectives;

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Should be adjusted based on experience and expectations; and
Should enhance productivity.

The real art of setting performance targets is to create challenging but achievable targets. The best targets are those that stretch the capacities of people and programmes, but are, nonetheless, possible - those that result in genuine improvement, while building staff pride and confidence. Conversely, impossible performance targets kill motivation and stifle innovation.

Developing good performance measures is thus an evolving process that improves with time. The following questions can be used to review and update performance measures (as they evolve) as well as Key Objectives, Goals and any other components of the strategic business planning model.

- What adjustments, if any, should be made to the measures currently used?
- What developments in the past year will influence current performance measures?
- Have there been any problems in measuring performance in the past years?
- What changes should be made in the way data are collected and analysed?
- Is the measured information useful to programme management and staff, executive management, the institution’s finance unit, customers and stakeholders?
- How could performance measures be enhanced?
- Are additional measures necessary?

To summarise, it takes time to develop good performance measures. This is a process that will improve with experience. Financial institutions will need time to experiment with different measures, to accumulate actual performance data and to set realistic targets for future performance. Thus, the process of developing, updating and reporting performance measures is dynamic and requires on going attention.

Keep Your Targets SMART:

- **Specific** – directly related and linked to the measure/goals
- **Measurable** – from easily accessible data sources
- **Achievable** – but not too easy … stretch and challenge your staff and systems!
- **Results Orientated** – focused on the outcomes rather than the methods to achieve them
- **Time-bound** – with specific and documented time frames

You will need information to set Targets. Sources of target information will include:

- Trends and baselines – first you should look at current results on the metric. Examining past data and trends will allow you to choose a target representing a meaningful challenge, while staying within the ballpark of reality.
- National, state, local, industry averages – micro banking bulletin, the MIX.
- Employees – those closest to the action are frequently in the best position to provide insight on what represents a meaningful target. Involving employees not only will provide relevant knowledge input but will get their buy-in. "He that complies against his will, is of his opinion still" - Samuel Butler.
- Other organisations/networks.
- Feedback from clients and stakeholders – ask your clients what they expect from your financial institution. After all your goal is to improve results for your clients.
Equity Bank set the following Targets for its Goal of developing an effective credit system:

<table>
<thead>
<tr>
<th>Goal</th>
<th>Measures</th>
<th>Targets</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Effective credit system</td>
<td>Process efficiency rating</td>
<td>&gt; 95% by March 2006</td>
<td>1. Train on waste reduction by June 2005 (SECURITY and OPERATIONS)</td>
</tr>
<tr>
<td></td>
<td>Compliance with processes and procedures</td>
<td>100% by December 2005</td>
<td>2. Implement Activity Based Costing by December 2005 (OPERATIONS and FINANCE)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1. Issue certificate of compliance to policies and procedures – by March 2005 and Quarterly (OPERATIONS)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. Performance standards to include compliance by March 2005 and Quarterly (HR and CREDIT)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1. Define Reports in the new system for credit management by April 2005 (CREDIT)</td>
</tr>
</tbody>
</table>

**6.6 Step 15: Translate Targets to Reality: Define Activities**

### 6.6.1 How Do I Define Activities?

Activities should link to the Key Objectives, through Goals and Measures/ Targets … and not vice versa. Organisations are usually activities driven: they think first about certain activities meeting their on or client’s needs and then identify objectives, measures and targets for those activities. This is wrong from a Strategic Business Planning perspective – Mission, Values, Vision and Strategy should always come first. Key Objectives then outline the broad priorities necessary for success. Next, Goals and Measures tell us what we must excel at to achieve the Key Objectives and execute the Strategy and how we will gauge our progress. Targets supply a star to shoot for. And finally, Activities are put in place that will help us achieve our Targets.

Examples of Activities include anything from building a client service portal on your web to launching a career development programme or redesigning your financial management system.

To start with map current organisational Activities to your KOGMA Goals. Any initiative or Activity that cannot demonstrate a clear linkage to a Goal, and hence to your Key Objectives and Strategy, should be considered as strong candidate for removal. If you are looking for a quick economic pay-off to justify your investment into the planning process, this step could be it. An ineffective initiative represents the potential drain of your scare resource that could be used elsewhere. At the same time your staff and management efforts and energy are directed to initiatives that have no or little payoff in value.

### 6.6.2 How Do I Assess And Prioritise Activities?

Using the KOGMA you can put your current initiatives under microscope and clearly divide which generate and which do not generate the value and drive to your success.

To assess on-going or current Activities within your institution:

1. List existing Activities
2. Review their alignment with strategy
Do they link to Key Objectives and Goals?
Can their effectiveness be assessed using developed Measures?
What would be their contribution to achieving set Targets

3. Indicate resources allocated

4. Prepare suggestions to management with next steps regarding these Activities:
   - Continue
   - Discontinue

Then develop new Activities through creative thinking and check them out against KOGMA Goals to ensure that they will contribute to what really matters for achieving your Key Objectives.

To identify/design new Activities for your institution:
   i. Identify new Activities, particularly in areas where they are needed the most
   ii. Use lateral thinking approach and brainstorming
   iii. Once you have generated enough check identified initiatives for alignment
   iv. Prioritise your Activities/projects

You will need to assess your own criteria to assess priorities and the weights to assign to each of the criteria, but you should design and implement a system for formally prioritising Activities so that those likely to yield the most results in terms of achieving Goals and the Key Objectives are implemented first.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
<th>Description</th>
<th>Initiative #1</th>
<th>Initiative #2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Points</td>
<td>Score</td>
<td>Points</td>
</tr>
<tr>
<td>Linkage to Strategy</td>
<td>45%</td>
<td>Ability to positively impact Key Objectives</td>
<td>7</td>
<td>3.2</td>
</tr>
<tr>
<td>Net present value</td>
<td>15%</td>
<td>Present value of benefits discounted 5 years</td>
<td>5</td>
<td>.75</td>
</tr>
<tr>
<td>Total cost</td>
<td>10%</td>
<td>Total cost including labour and capital</td>
<td>5</td>
<td>.50</td>
</tr>
<tr>
<td>Resource requirements (key personnel)</td>
<td>10%</td>
<td>Key personnel needed including time requirements</td>
<td>8</td>
<td>.80</td>
</tr>
<tr>
<td>Time to complete</td>
<td>10%</td>
<td>Total anticipated time to complete the initiative</td>
<td>8</td>
<td>.80</td>
</tr>
<tr>
<td>Dependencies</td>
<td>10%</td>
<td>Impact of other initiatives on the successful outcomes anticipated with this initiative</td>
<td>3</td>
<td>.30</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6.4</td>
</tr>
</tbody>
</table>

6.6.2 How Do I Budget For All These Activities?

60% of organisations do not link their strategy to budget. The link to budgeting is clear when you calculate the monetary investments necessary to launch the Activities. Every initiative or Activity will necessarily entail allocation of resources.

All Activities should document the Key Objectives and Goals they support, resources required to accomplish (human and financial), dependencies with other initiatives and key milestones.

The operational budget to be used to allocate resources is necessary for typical, recurring operations. The strategic budget is reserved for spending designed to close any significant gaps that exist between current and desired performance on critical performance indicators.

Alternatively you can use Activity Based Costing to develop the budget – however, this is very complicated.

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Attach budgets to organisational levels and Activities
Provide those that will prepare budgets with templates they can use to easily capture resources requirements. Each Activity needs to come with documentation – costs, timing, dependencies, key milestones, payback periods, etc.

A Simplified Budget Submission Form

<table>
<thead>
<tr>
<th>Business unit: IT and records</th>
<th>Goal(s): Increase customer satisfaction (KO3: Improve client focus) and Enhance speed of basic business processing (KO5: Improve efficiency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measure</td>
<td>Target</td>
</tr>
<tr>
<td>Customer satisfaction – measured by quarterly surveys</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
</tr>
</tbody>
</table>

Then summarise all the requests (documents) in relation to Key Objectives and Goals.

Budget Request Compilation by Key Objective and Goal

**Key Objective:** Improve client-focus

<table>
<thead>
<tr>
<th>Goal</th>
<th>Current KOGMA status*</th>
<th>Budget request operating (USD)</th>
<th>Budget request Capital (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase customer satisfaction</td>
<td>Red*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promote economic opportunity</td>
<td>Green*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide new services</td>
<td>Yellow*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% total spending</td>
<td>35</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>

*Green – meeting or achieving the target, red – requires improvement, yellow – requires caution and attention
** Current KOGMA status – snapshot of performance on the objective in the most recent year.

Finalise the budget: There will be gaps between requirements and money available. To close the gap, each initiative leader should deliver a formal presentation to senior managers outlining their budget submissions:

- What they encompass
- Why they are strategically important,
- How they will positively impact the Goals/Key Objectives.

Managers will need to decide which initiatives to fund. Most organisations use a ranking system:

- Activities that can be eliminated since they have low impact
- Activities that can be cut but will influence the group’s chances to meet the Targets
- Activities that are crucial for achieving Goals/Key Objectives
Then **Develop Terms of Reference for the Activity** and allocate the resources necessary to implement it. Below is the format used by some organisations for this exercise:

**Activity Terms of Reference Template**

<table>
<thead>
<tr>
<th>Activity Name</th>
<th>Project Manager</th>
<th>Unit/Team</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Measures</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dependencies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Capital</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interaction Required</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Completed By</th>
<th>Date (last updated)</th>
<th>Version</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 6.7 Step 16: Re-visit Your Financial Projections

Now you have a clear understanding of the Activities and budgets necessary to implement your Strategy, it is time to get back to the financials! Re-examine the financial projections in the light of the budgets for the Activities:

- Do the projections still add-up?
- What are the key revenue and cost drivers and are these adequately stressed in the KOGMA Analysis?

This step may force you to revisit some of your Key Objectives or Goals.
Implement and Monitor KOGMA Analysis

7.1 Step 17: Communicate!

7.1.1 How Do I Communicate And Market The Plan?
The Key Objectives Goals and key performance Measures can be published in the financial institution’s annual report. However, successful implementation of the strategic business plan depends on effective communication. Internally, the KOGMA Analysis should be communicated to all organisational levels. Managers and staff need to have a clear understanding of the plan and their roles in it. A plan has little value if it is not widely understood and accepted. It must form the basis for daily action throughout the institution.

Part of your communication will have been conducted through the participatory process you used to develop, review, critique and refine the KOGMA Analysis. It is however important to ensure that everyone in the organisation has a clear understanding of the key building block of the Strategy and KOGMA Analysis. As a minimum Chairman to Cleaner should know our organisation’s:

- Mission
- Values
- Vision
- Key Objectives
- Goals in which they are involved

Communicate and cascade KOGMA Analysis to all the organisational levels (staff meeting) and make the KOGMA Analysis available through as many channels as possible:

- Intranet
- Presentations from team members
- Brochures
- Newsletters
- Town hall meetings etc.
- Talk about the plan at staff meetings
- Distribute copies of the full plan to programme managers
- Prepare a condensed brochure version of the plan to share with all employees
- Display the mission statement in a prominent location in the building
- Recognise progress on the plan’s Key Objectives and Goals at staff meetings, in newsletters, and at other organisational events.

7.1.2 What Is Cascading?

Involvement Is Key To Ownership: Remember that communication is a two-way process and that many excellent ideas for both Strategy and KOGMA will come from all over the organisations. Assign team members to different organisational levels and teams to lead the cascading efforts. Start with business units and continue down the organisational structure.

Actively solicit critique, discussion and inputs from all levels – this will:

- Improve the KOGMA Analysis
- Improve understand/buy-in and thus alignment

Use the communication process to open communication channels throughout your organisation.

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In large and complex organisations, the cascading process is used to further develop and deepen the detailed planning.

KOGMA analysis can be used to prepare a business plan for each level of your organisation.

As a minimum the cascading process should ensure that everyone knows the Mission, Vision, Values, Key Objectives and the Goals in which they are involved – so that their daily work is directly aligned to the purpose and plan of the institution.

**Sending A Man To The Moon**

There is a great story about former president Lyndon B. Johnson touring Cape Canaveral during the space race to the moon. During his visit, the president came across a man mopping the floor, and asked him, “What is your position here?” The gentleman looked up from his pail and proudly replied, “I am sending a man to the moon”. Such is the power of alignment, when every person, regardless of role and rank, possesses a clear line of sight between his or her job and the organisation’s loftiest goals.

KOGMA Analysis can be used to drive organisational alignment from top to bottom, through the process of cascading:

- Cascading is a process to bridge the considerable learning gap that exists in most organisations
- Cascading provides real-time data for decision making, resource allocation and STRATEGIC LEARNING!
- Cascading the KOGMA Analysis allows the staff to find meaning in their chosen professions

In socially driven organisation cascading is even more important since achieving long term outcomes requires much effort and very good collaboration.

“A non-profit must be information-based. It must be structured around information that flows up from the individuals doing the work to the people at the top – the ones that are in the end accountable – and around information flowing down. This flow of information is essential because a non-profit organisation has to be a learning organisation” – Peter Drucker in “Managing the Non-profit Organisation”.

Cascading the KOGMA Analysis allows the staff to find meaning in their chosen professions (we need something more than money, so knowing how we contribute to wider society is empowering).

A recent study by Watson Wyatt in the US revealed that only about half of employees understand the steps their companies undertake to reach new business goals. According to researchers in the UK, in poorly performing organisations 2/3 of staff did not have a good understanding of overall organisational goals.

Cascading facilitates learning by fostering a two-way flow of information up and down the organisational levels. Staff is given a chance to demonstrate how they contribute to results. Results analysed at different levels benefit the leaders that can see how Activities fit within the whole organisation.

Soichiro Honda of Honda Motors notes that a very successful corporation is one that grasps the importance of alignment. He thinks that the sacred obligation of leadership is to:

1. Craft a vision: what we will be
2. Create goals: what 4-5 things we must do to get there
3. Alignment: translate work of each person into alignment with the goals.

Each unit should examine the institutional KOGMA Analysis to identify areas where they can have the greatest influence – examining which of the Goals it can influence. Start with unit level and go down. After each level is completed, the team audits the Measures for the institutional KOGMA Analysis and
between different teams. Once all KOGMA Analysis review exercises have been completed by all units, hold an open house meeting where staff can challenge each other’s analyses.

### 7.2 Step 18: Reporting, Use & Learning KOGMA

#### 7.2.1 How Do I Use Tracking Systems?
Tracking systems to monitor progress, compile management information and keep the plan on track are also essential for successful implementation of the KOGMA Analysis. Tracking the implementation of Goals (and Key Objectives) will normally be the responsibility of the individual or team responsible for completion of the Activities. Ideally, monitoring should follow a regular schedule-quarterly or monthly or in some cases, even weekly.

It will therefore be desirable to develop a tracking document. Elements for a workable tracking document should include:
- Key Objectives
- Goals
- Measures
- Activities, including the identification of the position, unit, section and/or branch/division responsible for implementation
- Room for comments and an explanation of the actions taken to date
- Information on current status.

Remember that by adding space for comments and the current status of each action step, your Activities plan may work as your tracking document.

The tracking document is only as useful as the information it contains and provides to management. Remember that this report will be a tool that management will use not only to evaluate the Key Objectives and Goals, but also to react quickly and effectively to the unexpected.

Progress and non-progress should be reported. Report progress to date on steps in the Activities plan that are completed ahead of schedule and that are on schedule. If things are not progressing according to plan, report the reasons, as well as what is being done to get implementation back on track.

#### 7.2.2 How Do I Monitor The Measures?
In addition to tracking progress on Key Objectives, Goals and Activities, Measures should also be monitored. Data should be collected for each Measure and reported at a regular interval. Progress reports on Measures could be in the form of data tables or presented in charts or graphs.

When using Measures as indicators of progress, it is important to note that most outcome measures only provide a “score” indicating how well the characteristic being measured is doing. External factors will affect the value of most, if not all outcome measures.
For each Measure, compare actual performance with the proposed performance level, and report the results. Ask the following questions about variances:

- How does the reported performance compare to previous periods?
- Is the variance relevant to successful achievement of the goal?
- Do external factors affect performance to the extent that targets may not be met?
- Is the variance due to faulty implementation?
- Are there unanticipated effects resulting from the variance?
- How frequently and in what form will the performance information be prepared?
- What kinds of explanatory data do you think will be needed to explain trends and results?
- How will the data/information be verified and checked for accuracy? What kinds of controls, tests and/or audits are appropriate?
- What kinds of unintended results can you expect from implementing the strategies? How can you avoid these results?
- How will you use the data to evaluate, improve, and change your strategy?
- How will you know if your strategy is inefficient or ineffective? What will you do to fix it?

### Measuring Progress of the Strategic Business Plan – Key Issues

Comparison of actual performance as reported in the monitoring document, to the “planned” performance (i.e., target) provides the basis for periodic evaluation of the strategic business plan and the planning process. Management should use the results of the daily, weekly, monthly or quarterly reports to identify reasons for not meeting expected results and use this information to review and revise policies, procedures, goals and objectives, as necessary.

Tracking performance and reporting results is an important way to measure progress towards meeting the goals in the strategic business plan. Assist staff by articulating some boundaries:

- Designate specific cut-off times for reporting.
- Pay special attention to continuity of data collection and calculation during personnel changes.
  - Train the new staff on how to calculate the measures in accordance with previous methods.
- Be sure there are effective internal controls to be sure the information is properly collected and accurately reported. It is difficult and embarrassing to take back information once it leaves an office.

### 7.2.3 And What About Reporting The Results?

Each institution will establish its own guidelines concerning how often performance information is to be collected and reported. At a minimum, data for each Measure will have to be collected annually, but some Measures may be calculated more frequently.

For example, you may want to have internal management reports on key volume, caseload and delinquency indicators every month and then to aggregate and report this information to upper management on a quarterly basis. For other indicators (especially if the month-to-month changes are nominal), you may want your data-reporting period to be semi-annual.

**External reporting.** External stakeholders want to know how well the financial institution and its operations are performing. If Measures show a continuous improvement process with a positive impact on results, some of the stakeholders concerns may be allayed.

Reports for external stakeholders should be clear and concise. Reports are often easier to read if the data are presented graphically. Reporting performance measures can also be aggregated and incorporated in annual reports.

Use explanatory information when reporting results. Your can rarely measure all the variables or identify true cause-and-effect relationships. To do so would require a rigorous experimental design, which would be impossible or prohibitively expensive.
Also, multiple factors can influence outcomes and many are beyond the control of the institution’s management. Recognise that your Measures have some limitations, and try to explain any unexpected results.

The following may help in the communication of results.

- Include targets as well as actual results
- Include explanations where performance varies significantly from previous levels or targets
- Develop reports that are user-friendly and that various stakeholders will be able to understand
- Provide information that will enable readers to easily assess the level of performance
- Do not provide too much information
- Ensure that feedback on the reported information can be gathered

**Internal reporting.** Internal reports can take various forms. These reports for programme managers can be more detailed and are usually more frequent than those for other stakeholders or top management. They may also include more process information. Sometimes, the data may be separated in order to clearly convey patterns. For example, results may be more meaningful if reported by geographic area or branch etc.

Create a mock-up report with dummy results beforehand and consult with the executive group. Then use results to drive agenda of management review meetings:

- Invite based on knowledge (not only managers)
- Review performance on all KOGMA measures

**What if data shows poor performance?** Let the Measures speak for themselves. Show people how they are doing. Ask for and offer explanations. Organisations do not always have control over ultimate results. For example, the economy or events in people’s lives can influence a microfinance programme’s outcome. Determine what can be done differently.

It is alright to constructively confront substandard performance. If not, poor performance is sanctioned and opportunities to improve are limited. Keep in mind that measuring performance also recognises accomplishments.

**7.2.4 What Should We Do In The Review Meetings?**

Review performance on all Measures:

- What can you learn from those Measures where you excel?
- Are there initiatives or resources that can be applied with equal effectiveness to other Measures?

Ask more questions about the Measures/Targets:

- Is the Target appropriate?
- What supporting Activities are devoted to this Measure?
- How are we progressing on those Activities?
- Do these results imply a flaw in our strategy?
- How have other Measures in the chain of cause and effect reacted to this performance?

Develop a tracking device to ensure commitments made in the meeting are kept and that progress is taking place. Use analysis of the gaps between Targets and actual achievement on each Measure to drive the agenda.

**7.2.5 Can We Base Rewards on Overall Results?**

The easiest way to tie KOGMA Analysis performance to rewards at higher levels in the organisation is through bonuses/staff incentive schemes. Some may even consider bonuses to lower organisational levels – based on the specific Goals for which they are responsible.

Under such schemes a certain percentage of incentive compensation is available to employees if the organisation achieves some or all of its goals. Each measure is assigned a weight with total weights

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across perspectives summing to 100%. Financial targets often receive higher weight to reflect importance of fiscal success (or other depending on goals).

For Example:

<table>
<thead>
<tr>
<th>Key Objective</th>
<th>Measure</th>
<th>Target</th>
<th>Actual</th>
<th>Weight</th>
<th>Payout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve Sustainability</td>
<td>FSS</td>
<td>100%</td>
<td>110%</td>
<td>30%</td>
<td>3.0%</td>
</tr>
<tr>
<td></td>
<td>Revenue Growth</td>
<td>25%</td>
<td>20%</td>
<td>10%</td>
<td>0</td>
</tr>
<tr>
<td>Excel at Customer Service</td>
<td>Customer Satisfaction</td>
<td>75%</td>
<td>77%</td>
<td>15%</td>
<td>0.4%</td>
</tr>
<tr>
<td></td>
<td>%Customer Retention</td>
<td>90%</td>
<td>85%</td>
<td>5%</td>
<td>0</td>
</tr>
<tr>
<td>Re-engineer Internal Processes</td>
<td>On-time delivery</td>
<td>90%</td>
<td>85%</td>
<td>10%</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Operational Efficiency</td>
<td>85%</td>
<td>85%</td>
<td>10%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Improved staff capacity and satisfaction</td>
<td>%employees gaining three new competencies (competencies attainment)</td>
<td>70%</td>
<td>75%</td>
<td>12%</td>
<td>0.86%</td>
</tr>
<tr>
<td></td>
<td>Employee Turnover (Neg)</td>
<td>5%</td>
<td>4%</td>
<td>8%</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Total Payout</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>6.86%</strong></td>
</tr>
</tbody>
</table>

**Successful KOGMA Analysis**

- Has a mix of financial and non-financial measures
- Creates an environment conducive to motivating staff
- Enables communication of Key Objectives, Goals and Targets
- Describes the organisation’s vision
- Gives an overall picture of the strategy
- Shows staff where to contribute
- Focuses staff on critical issues
- Allows monitoring of progress towards Goals and thus Key Objectives

**7.3 Step 19: Review Update Your KOGMA Analysis**

KOGMA Analysis is about change! Reflect it and update your KOGMA Analyses regularly.

**7.3.1 Annual Review and Assessment**

All strategic business plans – KOGMA Analysis or others - should undergo an annual assessment. This helps the institution:

- Evaluate progress towards the Key Objectives and Goals.
- Determine what went well and what lessons were learnt.
- Modify the plan to make it more realistic or challenging depending upon the circumstances and
- Prepare useful information for the next planning cycle.

The institution should conduct an annual assessment of its strategic business plan. This allows the strategic business planning team and the institution to see where it is with implementation, make any necessary adjustments and prepare for the upcoming operations plan. The questions beside each category are illustrative of the types of issues the institution should examine.

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On Strategy Implementation

- What has been accomplished to date on each of the strategies outlined in the strategic business plan?
- In particular, which of the operational goals and actions planned for completion during the year were actually achieved/completed?
- Which operational goals and actions were not achieved/completed? Why

On Expected versus Actual Outcomes

- What are the quantitative and qualitative results of the efforts to date?
- Do the results match what we expected to see?
- How could we have achieved more?
- What appear to have been the other intended and unintended consequences of the action in pursuit of the strategies?

On Resource Utilisation

- Are resources, including staff, money, information, technology, facilities, etc., being used as planned?
- Are more or different resources being used than were anticipated?

On Corrective Actions

- What reasons may explain outcomes different from those expected?
- What, if any corrective action should be considered and/or implemented to get the institution on track?

On Trends

- Have there been any trends/developments with major implications for the strategies?
- How might the strategic business plan be modified to accommodate new and/or changing trends?

7.3.2 KOGMA Implementation Principles – Lessons Learnt from Other Industries

Examples of principles:

- Encourage common language where appropriate as terminology should be consistent across the organisation – we all use the same Key Objectives, Goals, Measures, Targets and Activities. There is a need for further education on the terms to ensure we are all on the same page.
- Keep Measures to minimum, but there is no cap on Measures in cascaded KOGMA Analyses – at organisational level we purposely limit the number of Measures. However at each level there is a need to choose measures reflecting the team contribution. General principle to keep to minimum works here as well.
- Make sure that the tool does not serve only as reporting or measure depository but is used by management for management purposes.
- Cascaded KOGMA Analyses should be content specific – representing the unique characteristics of each group. People will only support what they create thus encouraging unique but aligned KOGMA Analyses is critical to success.
- Personal performance objectives should be linked to the scorecard – all leaders and managers should have the development of a KOGMA Analysis for their area as part of their personal goals (i.e. advancing KOGMA among their groups). Understanding/use of KOGMA Analysis should be included as key leader competence.
- Communication of KOGMA Analysis and the development process will be critical as it is cascaded throughout the organisation.
- Team leaders are vital to the KOGMA acceptance (prepare support tools, educational materials, road shows, boot camp for managers)
- Share learning as a team and communicate regularly to capture early success of KOGMA to circulate them and share (through website, meetings, etc). Team should meet regularly to discuss, monitor and support successful implementation.
What You Can Do
Adapted From George Labovitz and Victor Rosansky

Start with the main thing [the Key Objectives/Goals] for the business or your business unit. Do you know it is? Do your people know? Don’t simply post the main thing. Engage the people who work for you in a dialogue to be sure that they understand it and its implications for their work.

Create goals for everyone. Everyone from top to bottom needs individual goals that align with the over-arching Key Objectives of the department, the division, and the company.

Create your own set of indicators [measures]. No matter where you are in the organisation, you have customers (either internal or external), employees, financial requirements, and processes under your direct control. Create a meaningful measure for each. Make each as close to “real-time” as possible.

Make sure that everyone understands your measures and how they tie into the main thing [the Key Objectives/Goals]. Give every person working for you a one-page graphic that shows how his or her work contributes to the main thing. If more than a single page is required, you’re not being clear.

Link measures and activities with rewards and recognition. There should be a pecking order of measures and rewards. Match these to customer “care-abouts.” What customers care about some should earn the highest reward.

Give people the training they need to do the job right. Start by identifying the people who do the job best and the measures that point to “best”. What makes them “best”? Train others to be like them.

Review performance on a regular basis. Let customers rate employees through appropriate measures - this makes rating more objective and takes the burden off you.