MicroSave Briefing Note # 4

Enhancing Responsiveness to Clients through the Feedback Loop[1]

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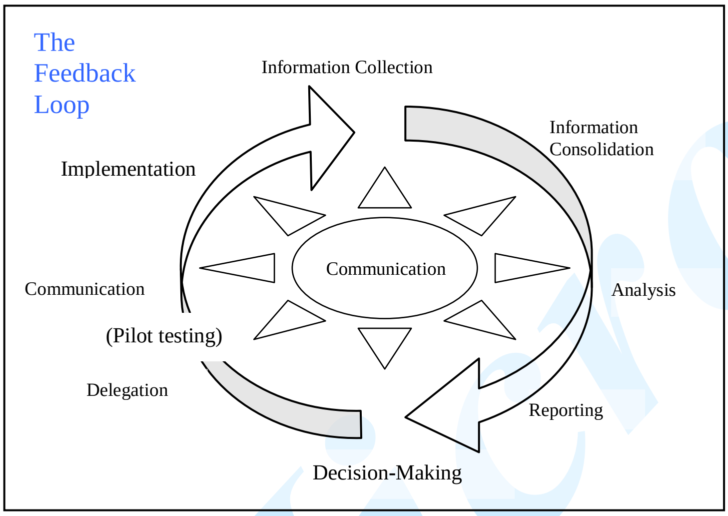
Introduction

The Feedback Loop is a continuous process starting with data collection and continuing through to use of the data to make and implement responsive decisions. It is an action-based process that illustrates the actions required in responding effectively to customer information. The loop is structured such that MFIs, which carefully follow the different phases of the loop, will be more likely to consider all issues in decision-making and implementation, and make effective use of the data collected from clients.

This approach does not take into account a specific institutional hierarchy, because the *actions taken* in terms of using client information are more important than who takes them. With this action-based structure, all activities must be completed whether one person, or the whole institution, completes the loop.
Addressing feedback can result in a variety of "positive" responses: new products, product alterations, policy or procedural adjustments, one-off activities, among others. Many of these require prototype and pilot testing, both of which fit well into this loop structure. However, addressing feedback can also mean a "negative" response (at least in terms of client expectations); sometimes clients make suggestions that for good reasons, an MFI needs to reject. But it is important to relay even these "negative" responses to clients. Research shows that clients trust institutions more when they get responses to their issues, even if they are "negative" responses from their perspective.



The Feedback Loop

The Phases of the Feedback Loop

The Feedback Loop has eight distinct phases that are repeated over time and with different issues. There will likely be several loops working in the same institution at the same time. The phases are:

1. **Information collection** is the gathering of data, either formally through surveys, studies, and information requests, or informally through management and staff interaction with clients, non-clients, local officials, board members, and others.
2. **Information consolidation** turns the raw data into usable form. The researcher or the person commissioning the study usually consolidates data gathered formally. Informal data is usually consolidated at staff meetings (branch staff or management meetings) when staff comes together to discuss client issues.
3. **Analysis** forces an institution to assess the information in terms of both client and institutional needs, and helps in developing a recommendation to satisfy these needs. Institutional analysis must always include a review of, at the very least, cash flow, profitability, and capacity issues.
4. **Reporting** is the synthesis and summary of the analysis prepared in a form that is useful to decision-makers. This synthesis and summary is organized into four points that are considered for every potential decision, and written into a formal report for any issue that is not an "easy" and limited impact decision. In a written report, the four points are normally compressed into one page, but never more than two. The four points are:
   a. An explanation of the issue, and why it is important
   b. A description of the recommendation
   c. A synthesis and summary of the analysis
   d. A framework for an implementation plan
5. **Decision-making** is based on the report phase. Among MFIs, there are significantly different levels of centralization and decentralization, and thus where decisions are made varies widely. It is important to recognize (and too often forgotten) that the decisions should frequently lead to prototype and pilot testing the decision, before full rollout.

6. **Delegation** occurs once a decision is made. This is most effective when information and guidance is given to the person(s) delegated with moving the decision to implementation (even if implementation is a testing phase).

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7. **Communication**, in this case, refers to all the preparation that goes into the implementation, from conveying the issues to staff, to training, to the marketing and implementation of plan development.

8. **Implementation** includes all forms of responses to clients. The implementation itself should be tested.

This brings us back to "information collection" to gauge the level of client satisfaction and the effectiveness of the institutional response. All of the phases are informed and enhanced by communication. The Feedback Loop is not a process that can effectively move in a vacuum without additional inputs of discourse among and between staff, management, and clients.

Lessons Learned

The eight phases of the Feedback Loop were reviewed in relation to the feedback activities of five microfinance institutions to assess strengths and weaknesses along the loop, and generate some common lessons from their activities. These institutions exemplify several different institutional styles, cultures, objectives, and maturities, which made for helpful comparisons. Our observations include:

- Focus only on data collection that the institution can use. If staff is gathering data but there is no capacity to follow through on the loop, the institution is wasting time and money, and the collectors feel that they are made to do useless tasks, which is de-motivating.
- MFIs that follow a Feedback Loop framework are more likely to consider all issues in decision-making and more likely to implement client-focused innovations. Some institutions indicated that it was very helpful simply to have a framework to follow.
- MFIs, which have a client-information focal point, (someone who coordinates client data and is responsible for consolidation, analysis, and reporting) are dramatically more effective with client-focused products and procedure improvements.
- MFIs bound by rigid methodologies are less likely to be effective in responding to clients. A rigid methodology often allows little latitude for making adjustments to satisfy client needs.
- MFIs with entrepreneurial management (especially those that are able to convey that spirit to their staff) are likely to innovate more effectively based on client input.
- Decentralization can be more effective than a "participatory" process within a centralized MFI. Staff from some "participatory" MFIs noted that in fact they had no latitude for decision-making, and "all decisions were made at the top." Others with more decentralized structures had great latitude to make decisions within broad parameters to satisfy customer demands. Clearly there are some benefits of a highly centralized rigid structure, but if the objective is client responsiveness, it is clear that a reasonable level of decentralization is required.
- Vertically integrated meetings with more than two staff/management levels can more effectively move issues up the institutional hierarchy. For example, several MFIs held periodic multilevel meetings that were noted as highly valuable because information got closer to decision makers with fewer filters.
- Avoid being caught up in a research cycle, asking for more and more research, and pushing decisions and implementation further into the future. Managers need to recognize the use of prototype and pilot testing as alternatives to several rounds of theoretical research. Once a reasonable decision can be made, move forward.
- MFIs need to be clear about how much they are willing to "invest" in this process, and monitor the costs. They need to balance the costs with the benefits to clients and the MFI. Since costs need to be covered, and institutions must surpass sustainability, it is the client who must pay for these activities. There is potential for donors to fund some of this effort, however, clients must still cover the ongoing costs of these structures built by donors.

Managing client feedback through this structured looping approach will help institutions to be more competitive by enhancing not only their responsiveness to clients, but also the effectiveness of those responses, while ensuring overall institutional benefits.

This Briefing Note was developed on the basis of the ***MicroSave*** publication "The Feedback Loop - A Process for Enhancing Responsiveness to Clients." This paper is available on ***MicroSave***'s website: www.***MicroSave***.net under the Study Programme section.