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The Feedback Loop
A Process for Enhancing Responsiveness to Clients

Or, what do we do with all this client data?

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Imp-Act
IMPROVING THE IMPACT OF MICROFINANCE ON POVERTY: ACTION RESEARCH PROGRAMME

TABLE OF CONTENTS

The Feedback Loop
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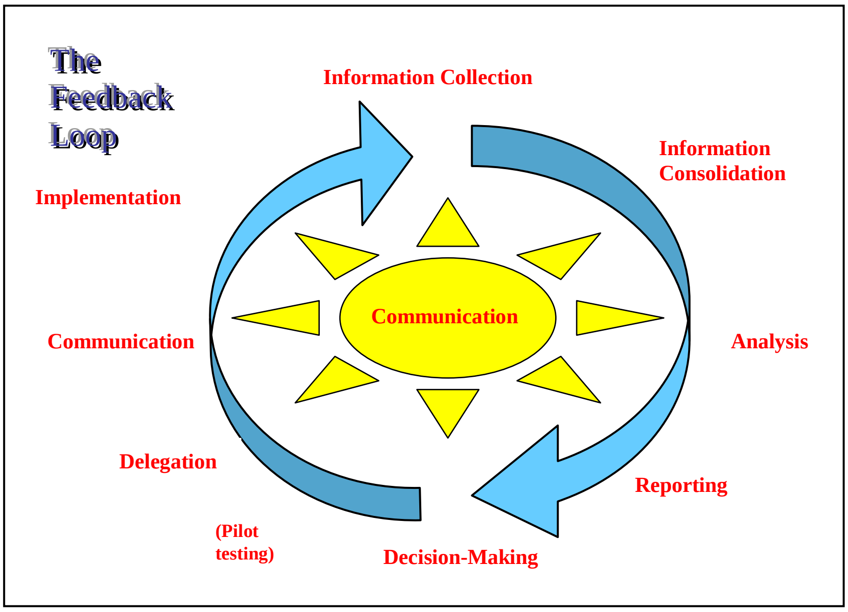
Michael J. McCord

EXECUTIVE SUMMARY

INTRODUCTION

The Feedback Loop is a continuous process starting with data collection and continuing through 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 who 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* are what is most important in terms of using client information, rather 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, or 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 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 as follows:

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).
7. **Communication**, in this case, refers to all the preparation that goes into implementation from conveying the issues to staff, to training, to the marketing and implementation plan development.
8. **Implementation** includes all forms of responses to clients, and 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 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 opportunity-focused innovations. Some institutions indicated that it was **very helpful simply to have a framework to follow**.
- MFIs who have a **client-information focal point** (someone who coordinates client data and is responsible for consolidation, analysis, and reporting) are dramatically more effective with opportunity-focused product 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 are 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 to 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.

The Feedback Loop
A Process For Enhancing Responsiveness to Clients

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1. INTRODUCTION[1]

This paper highlights the results of a review of the feedback processes at five ImpAct partner institutions – a bank focusing on the low-income market, two group-based microcredit institutions, a set of member-owned financial institutions, and a savings and credit microfinance institution. Each of these institutions service "low-income" clients with microfinance products. Some offer voluntary savings and some do not. Some focus more on solutions to poverty than others. Some are clearly more client focused than others.

There were three primary objectives for the work that underlies this review:

1. Develop a baseline understanding of what the partner institutions are doing now with relation to the operationalization of the Feedback Loop (there is a planned follow-up assessment near the end of the ImpAct project).
2. Using the information from the first, help the ImpAct partner institutions develop an action plan for addressing the issues identified in the loop assessment.
3. Identify significant lessons learned in the feedback process used by these institutions.

The visits to the institutions were three and four days each in duration. There was an effort to review all the components of the feedback loop as implemented in each institution. This required discussions with management and staff as well as clients and, on some occasions, board members, to gain a clear understanding of the processes being followed.

In the next section we have presented our conceptualisation of the Feedback Loop, a description of its components, and the process linking them. The institutions noted that this process represents a rational approach for working with client data, and will likely assist them to be more professionally responsive to their clients.

This next section also defines the different phases of the feedback loop. At each phase, there is a definition, some discussion of what was found at the reviewed institutions, and examples of the recommendations made to the partner organizations. Some specific examples of how information has turned into action in these institutions is provided as well as strengths and weaknesses in their current systems, and a synthesis of lessons learned.

At each institution a detailed "*Action Plan Suggestions for Enhancing the Feedback Loop*" was developed. These were provided to the institutions and are intended to comprise the detail for the baseline work. These reports provided some basic information about the institution and detailed the review of current responses to the loop activities, and related suggestions. These were discussed with senior managers of each institution, and left with them as the basis for the development of their action plans.[2]

It is important to note that the exercise looked at all sources of information coming into the institution about clients' (and in some cases non-clients') attitudes, preferences, and issues. The focus was not

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1 This research was conducted as part of the Ford Foundation funded ImpAct programme. This programme represents a major step forward in supporting MFOs towards delivering services that have a long-term impact on poverty. *ImpAct* has established a group of committed organisations, each with a clear vision of the role of impact assessment in their organisation. Effective networking and collaboration between the MFOs funded through *ImpAct* and alliances with a range of national, regional and international networks and organisations will ensure that the programme both builds onto and learns from experience, and that information and lessons are quickly disseminated and fed into the evolving experience of the microfinance industry globally. The author's appreciation goes to the management and staff of the five MFI partners of ImpAct that were visited as part of this research. Thanks also go to Susan Johnson of ImpAct and Graham Wright of ***MicroSave*** who oversaw the effort, to David Cracknell of ***MicroSave*** for his comments on an earlier draft, and to Janet McCord who helped to turn dry text into something more alive. Any errors, omissions, or other problems with the document lie fully with the author.

2 These documents were provided to the institution, ***MicroSave***, and ImpAct and will not be made available for general distribution in order to protect the confidentiality of the institutions surveyed.

particularly on traditional "impact" data as such, since there was very little if any "impact" data being collected by these institutions. The institutions were focusing more on a market approach with their data collection, asking more about what their clients want, than how well they are doing with what they have received.[3] Additionally, the reviews did not focus on generating new sources of information, but rather on what is done with the information once it is obtained.

2. THE PARTNERS

ImpAct has five partners in the East and Southern Africa region. All these partners were visited during February and March 2002. The information gained from these institutions form the basis for the examples and discussions provided below.

2.1 SOME BASIC CHARACTERISTICS OF THE PARTNERS:

Although all the institutions visited were MFIs, they were significantly diverse in many ways as can be seen below. This diversity makes the data richer, and provides a better assessment of the potential broad application of the Feedback Loop structure.

Institutional type	✓ One regulated bank, ✓ One credit based limited liability company, ✓ One unregulated savings and credit limited liability company, ✓ One non-profit NGO, and ✓ A series of specially regulated community pseudo-banks
Number of borrowers	From about 6,000 to 20,000
Loan portfolio value	From about US$500,000 to US$24 million
Number of clients depositing with the institution	From zero to 280,000
Value of net deposits	From zero to US$69 million
Number of branches	From 3 to 18

2.2 GOVERNANCE STRUCTURES:

All the institutions have boards of directors that guide high-level policy. The community organizations all have boards composed of local members. Except for the one member-owned institution, and one of the limited liability companies, the boards and members refrain from significant interference in the management of the institutions. One institution has a large block shareholder that has created district "local committees" which meet with clients to inform the shareholder of client satisfaction. These local committees also provide information to the local branch manager who is invited to brief the committee at their meetings.

The institutions generally follow a traditional organizational chart with the members, then board of directors, then a chief executive equivalent, and then finance, credit and operations managers. One institution has Co-Chief Executives and based on discussions with several staff members, this causes some confusion, although it has been manageable so far with each co-CEO covering a different area of responsibility within the institution.

2.3 INSTITUTIONAL CULTURES:

There was a dramatic difference among institutions in institutional cultures.

- One institution focused on growth while in a "relentless pursuit of customer satisfaction," yet with limited capacity to fully pursue such a grand ideal.
- A second is steadfastly focused on serving the poor with special products and numerous credit officer-intensive procedures designed to help the poor to be successful with their program, even to the detriment of its own sustainability.

[3] The one notable exception was an institution that has an intentional focus on understanding the impact of their products on their clients as a means of assessing their products.

- A third institution notes that "managing customer satisfaction is a key in achieving all strategic objectives" and is deeply committed to obtaining more and more detailed research results, but seems reluctant to make decisions which will move the institution forward based on the data obtained.
- A fourth institution is aggressively responding to client needs and demands through a dramatic decentralization of decision-making with the objective that the staff should be satisfying the needs of clients. Their progress in innovation and clear customer orientation has made a significant positive impact on the institution and has made them a force to be reckoned with in a competitive market.
- The fifth institution is actively owned by members who guide the management, so in that sense it is the most responsive to clients, yet neither management nor members are well skilled at analysing customer demands.

All the institutions have a strong interest in satisfying their customers, but use different mechanisms do this.

3. THE FEEDBACK LOOP

3.1 WHAT IS A FEEDBACK LOOP?

The Feedback Loop is a continuous process starting with data collection and continuing through 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 who carefully follow the eight 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.

An institution that is client focused will be constantly moving around the Feedback Loop. This is not to suggest that every comment from a customer or client results in new or adjusted products, policies, or procedures. But rather, it means that *communication with clients does require a process and a response*. Clients in one group noted: "All the information just flows up. We never get any information back." When information flows only in one direction, clients become dissatisfied that no one is listening to them.

Don't lie to your clients!!

Even worse, some institutions simply lie to their clients. At another institution, one credit officer tells clients that their issues will be forwarded to management for a decision, but then s/he does not bother to covey the information because client issues are "never addressed by management." They see it as better to put off the clients in the hope that the issue will be forgotten.

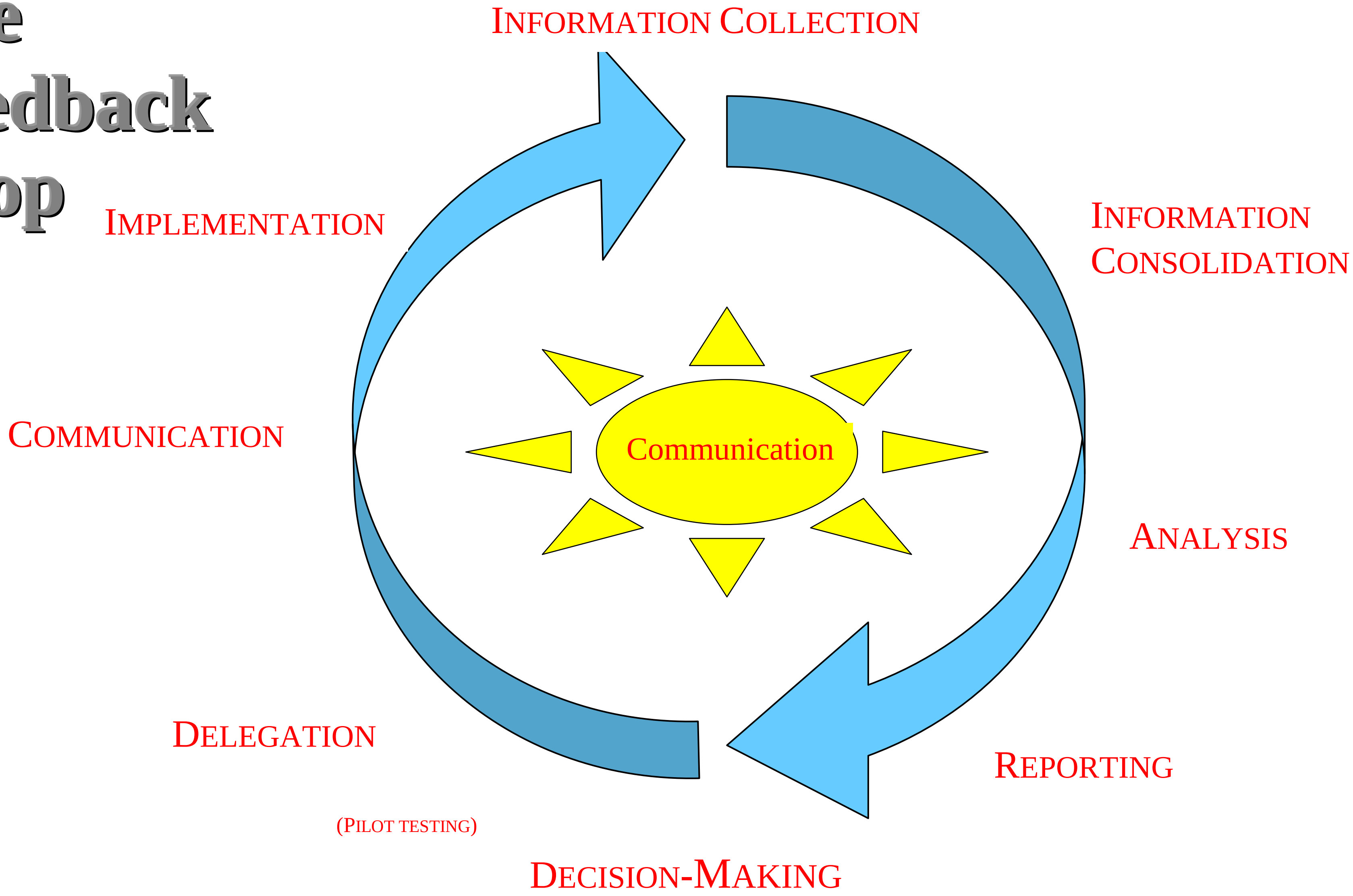
Our approach to conceptualising the Feedback Loop is through the *processes and actions* that are required – an "action-based" Feedback Loop. These processes and actions are consistent regardless of the issues, capacity, culture, objectives, or the level of centralisation or decentralisation within an institution. The loop responses may not be as detailed or intensive in all cases, and certainly the speed of the process is highly variable depending on the issue, but all phases of the Feedback Loop must be addressed for each issue.

The Feedback Loop incorporates a series of eight phases starting with "Information collection" (at the top of The Feedback Loop diagram) and returning to "Information collection" to demonstrate the revolving nature of the loop.

The large "sun" in the centre of the diagram illustrates how communication illuminates each of the phases. These phases are not to be moved through in a vacuum. It is anticipated that each phase will be informed through discussions with people at all levels of the institution and, where appropriate, both clients and non-clients. It is communication that lubricates the Loop and helps to keep it spinning.

The phases are identified in the diagram and these will be discussed in detail in the next section. Note that "Pilot Testing," another separate process that fits into the Feedback Loop, is included after the decision-making phase. This is to remind decision-makers that pilot testing is an appropriate response to a significant decision.

The Feedback Loop



4. THE PHASES OF THE FEEDBACK LOOP

The eight general phases of the Feedback Loop lead an institution through a comprehensive approach to addressing customer feedback. As an organization and its decision-makers move through the loop they are better able to make rational decisions about customer feedback and to properly implement new or adjusted products, policies, or procedures (if such are warranted). The phases are noted below with a detailed description of each, as well as a discussion of some of the current experiences of the institutions visited and examples of the general recommendations made to the institutions in each phase.

4.1 INFORMATION COLLECTION

The Feedback Loop processes start with the collection of data from clients. Most organizations collect client data, although their response to the data is often limited. Institutions collect data collect data both formally and informally using a variety tools.

Formal information collection includes: participatory rapid appraisals, focus group discussions, case studies, questionnaires, surveys, or other forms of institution-initiated studies of client behaviours or attitudes. This data can be collected internally or externally. Some organizations argue that it is preferable to have outsiders generate the data so that there is no bias in the collection. Additionally, outside "professional" researchers are generally tasked with completing the next three phases regarding the data (consolidation, analysis, and reporting, though the latter requires internal perspectives).

Informal information is not so much collected as received. This is the information that comes from interaction with clients. Such information can come during a transaction, through any other interaction with staff or management, or even bumping into a board member on the street. Institutions often either miss this information altogether because front line staff does not collect it formally, or they make decisions based on too little informal interaction (thus the need for the consolidation phase). Both of these responses are mistakes. The information that comes informally from clients must be treated as a concept for potential further information gathering. This is often the most voluminous and timely source of information from clients. For some institutions, this is the only way they acquire customer information.

Some Experiences in Information Collection

All institutions visited are collecting information through informal means, and some have active programs to collect formal information through qualitative and quantitative means.

Use of External Researchers

One institution has an annual survey of clients conducted by a local consultant. The institution picks particular issues (the topic last year was "client satisfaction with loan products") and the consultant goes to almost all branches and conducts quantitative customer research. In the most recent survey, the research was rushed. The results were of limited value because there was little analysis and what was provided was not sufficient for decision-making.

This MFI has plans to schedule internally conducted formal client research but appears to have very limited capacity to do this successfully. Those trained to conduct research are active in the field, and there is no one to coordinate institutional research activities. Some of their staff have been trained in qualitative research techniques but it is unlikely that they will be able to move their agenda forward without a significant personnel shift that allows for research time and someone to coordinate the activity.

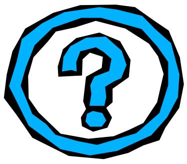
Internal Research First

Another MFI has found it most important to first conduct an institutional assessment of products in an effort to understand staff attitudes towards and knowledge of both their products and how clients relate to them. They see this step as crucial in generating a basic understanding of their clients (as well as staff and their capacities) and expect that this information will help them to develop more appropriate research objectives and structures for collecting information directly from clients. In the next phase they plan to go directly to clients with quantitative and qualitative tools.

All other institutions focus directly on researching client issues with clients rather than with their staff, and one had a series of qualitative and quantitative research studies already planned.

Internal Auditors as Collectors

Even internal audits can be a useful tool for collecting client information. One MFI told us that they had been using an internal audit team that reviewed financial information and also noted information about customer satisfaction during field audits. Now the institution has switched to the use of externally sourced auditors to fulfil the internal audit functions and is worried that they will lose the customer-level information they used to find so valuable. In this case, the need for better financial oversight outweighed the benefit of generating client data. Another institution told us that their internal auditor also noted satisfaction information from clients, but since he has left the institution they have been unable to find a similar employee.



Who wants the information?

One important consideration is: who wants the information that is being collected? Where is the demand for data coming from, and what is the institutional interest in the results? All institutions discussed the need to collect data for the ImpAct project. One in particular, which has a research department in addition to an operations department, provided an interesting note on the importance of the source of demand for data. The research department is working hard collecting data with funding from an external party. The operations department notes that they have not asked for that research (nor indeed any research from the research department), and that the research department goes to external sources for funding on research demanded by their market (the external sources) wish rather than on research that the operations department might demand. It is clear who "the market" is in such cases. The result is that valuable information is not getting to people who can use it to make a difference.

In most institutions, the internal demand for research information comes from the chief executive (or equivalent position).[4] At one institution where research and operations are well integrated, it is the operations manager (in addition to the CEO) who actively generates research ideas with the research department, and very actively reviews the results, with the expectation of implementing appropriate lessons. Bringing the demand for research closer to the front lines can help make the research topics more relevant.

Another MFI, in collecting formal data that is structured into their systems, have front line staff do a detailed member progress report. This report provides a measure of household change that theoretically assists the credit officer to more effectively assist the client. However regarding this report, a branch manager noted: "I think it is just used for funders because it is rare to see anyone using these reports." People will work to collect and use data if they find it helpful to their work and see a clear benefit from it, besides simply retaining their jobs.

Be careful how and where you ask your questions!

One institution currently (and several others in the near future) uses a questionnaire on the back of their loan application to collect change data from their clients. This institution questioned the validity of the data being collected as part of the application, and had a study conducted to assess this issue. The result showed that even though clients were told that the information they provided in this section had no bearing on the loan approval decision, clients still perceived a relationship. This resulted in skewed information provision as an attempt to support their loan application. For example, new borrowers underreported income and household status information in an effort to appear "poor enough" to get a loan. Repeat borrowers over reported to confirm a need for larger loans.

Some institutions use this technique to try to gather satisfaction data from clients on the loan application. The question must be asked: how likely is it that a client will criticize your product or institution at the

[4] This paper will refer to the highest-ranking operational manager as the Chief Executive. Organizations refer to this position using several terms, including: managing director, country director, general manager and others.

same time they are asking for a loan? It would seem, in fact, that clients would respond in the same way they do to the household status questions discussed above.

One institution regularly tracks changes (as reported by the clients) in quality of housing, clothing and food, as well as schooling of children and overall household employment through the use of household visits. All this is designed to directly assist management in determining the appropriateness of its products in helping the poor to improve.

An important, yet seriously elusive set of information is "honest" data from dropouts. The emphasis on honest data reflects the difficulty almost all institutions have in obtaining real reasons for client drop out.

Why are they leaving??

Some institutions record dropout information on forms. The common method seemed to be calling on dropouts in the final meeting of the loan cycle to have them tell the credit officer in front of the group why they were dropping out. Not surprisingly, credit officers note that such data rarely corresponds to the reality (but at least the form gets filled in). Additionally, this data is often not consolidated and therefore does not move along the feedback loop (thus wasting the credit officer's time). Some institutions do consolidate such information and use it as an input to decision-making, which is a bit scary given the acknowledged questionable nature of the source data. Others simply do not collect exit information at all.

Each of these institutions have staff that have been trained by ***MicroSave*** to collect qualitative data. Some institutions use their trained staff for research. Others use them to train others on their staff so that the others can do the research. Finally, still other institutions note that they are simply too busy to allocate their staff to data collection and analysis.

Each institution had varying degrees of structure for collecting (and analysing data). One had a development department, another used their research department, one used their training manager, and two are developing marketing positions to manage such data. Since the marketing positions are new (and in fact not yet formally filled) it is too early to make comparisons between the methods. The key difference in effectiveness between the other three is the support they get from management, and the skills and focus of the head of the research team.

In one MFI, research was critical to managing and monitoring their focus on satisfying the needs of the poor. This institution actually has two people focused full time on researching issues for the MFI, and one who inputs into the computer system all client data generated in the field. This, in addition to all the time used to collect this data, makes the cost/benefit of this intensity of research questionable. In another, though management is interested in the research, there is little done to effectively integrate research with operations, thus dramatically limiting the usefulness of the research data.

All institutions were at least receiving informal information from clients. The receptivity of institutions and use of this kind of information varied greatly. One cashier from a self-reported highly participatory institution noted: "even when we take information to the office nothing will be done." Until front line staff know that they can make decisions and will be listened to at higher levels of the organization, as is the case with the most progressive MFI in the group, the impact of informal data collection will be limited. When this happens, an important source of information is lost.

Informal data can be a gold mine

If clients feel there will be a response, they are most willing to provide information. In a meeting at one institution (that regularly collects valuable data from its clients), clients noted that they trust their credit officer to convey their information to management because they get responses, "positive" or "negative," from management through the credit officer. In another, where clients expressed unhappiness with the institution, they noted that all the information "just goes up."

Several institutions collect client information through suggestion boxes. Some have elaborate mechanisms for making sure the branch manager or staff do not remove any submissions that might be critical to them. These often result in someone offsite maintaining the key. In one institution it was acknowledged that since the key bearer infrequently visited some of the branches, their suggestion boxes only got opened once every six months or more.

In this institution and most of the others (except one), the box gets opened and suggestions are reviewed with staff or the manager, and then the head office person takes them away never to be seen again. In one MFI, a branch manager noted quizzically that: “When we first put the box out, after one month it was almost full. Now (after more than a year) there are hardly any notes when it gets opened.” These institutions are treating the suggestion box like a one-way information flow. They are not recognizing the need to respond to their clients (to complete the feedback loop).

One of the institutions working with groups and travelling front-line staff is testing a new suggestion box concept. They have a mobile box, which is sent to a branch for two weeks so that their credit officers can bring it to group meetings. The locked box is sent back to the head office, where the questions are typed out, and senior management responds to each question. The objective is to have the formal responses back to their clients within one month.

When collecting data on attitudes, products, and services, it is important not to forget those who are not (yet?) clients. One branch manager noted that: “The primary way customers complain is by not discussing it and not taking the product.” This manager related that when her institution moved from individual-based to group-based loans people simply did not join the groups. Others joined because they had no choice if they needed a loan. Your institution needs to make sure that it gets the opinion of those who have a choice, and not just those who do not, and this requires collecting information from outside current client pools.

Generally, a good deal of data, both formal and informal, is coming into these institutions. They have information to work with, In the next phase we will look at how effective they are at working with this data.

Recommendations and Comments on Information Generation:

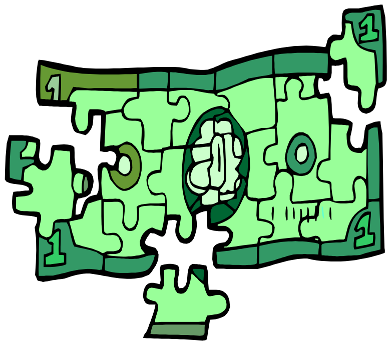
Several recommendations were provided to these institutions to help them improve the way they collect data. These, and some additional recommendations, include:

- ✓ Maintain a checklist of most common customer issues and simply tick the issue each time it comes up for common issues, and note new issues / ideas.
- ✓ Develop a schedule for conducting client research exercises at different branches through the year. This should be included in the annual work plan of the institution.
- ✓ Ensure key tracking indicators are available in any new computerized MIS system
- ✓ Develop (and ask) a monthly customer satisfaction question to get clients thinking about their issues and to get the field officer used to asking the clients for feedback.
- ✓ Teach staff how and when to talk to customers and allow them a forum to share customer feedback with their peers. Your staff members need to know the difference between closed- and open-ended questions, what questions are best to ask, how to initiate conversations with customers, and how to push for details. This can be done effectively through simple role-plays with scripts. By training staff on how to talk to clients you set them up for success and will likely gain significant opportunities for learning from clients.

4.2 INFORMATION CONSOLIDATION

Institutions are collecting lots of information, whether formal or informal, but in raw form – as it usually is initially – there is really no value. In fact, such raw data can lead to decisions based on too limited information. Anyone who has had a stack of raw survey results dropped on their desk knows this, as does anyone who hears a client suggest a better product. Additionally, there is a tendency to recall only part of the relevant evidence (called ‘availability’) and thus, decisions are too often based on the most recent or most dramatic evidence.[5] One cannot create a new product based on one customer's product idea, and one cannot responsibly glean decision-making inputs from raw survey data. This data must first be consolidated before any reasonable work can be done with it.[6]

With formal data the consolidation process can be rather straight forward – tabulate the results. With informal data it may be a bit more difficult. As one field officer noted: "I hear important comments from customers, but by the time we have a staff meeting, I have forgotten them." Informal information is commonly treated like this. We hear it, and we forget it. It is only, as another field officer noted, "when I hear the same thing many times, then I bring it to my manager," that informal data "sinks into" the consciousness. Usually only a critical mass of information on a specific issue will prompt the listener to move the data to the next level. Think of all the potentially valuable information that gets lost because it does not reach a critical mass within a timeframe that makes it appear as a critical mass. We need better, yet simple, ways to collect such data.



In a microfinance institution, common fora for consolidation are the field officers' meetings, as well as staff meetings for supervisors' and others, and especially those that are interdepartmental bringing in people from different levels of the institution. In these meetings, staff members come together and discuss their issues. When one notes an issue, others may concur with examples from their area of operations. This is an important consolidation step where the information gets consolidated at one level and moves up to the next through the leader of the meeting (usually one level higher in the organization) to receive a more appropriate audience of decision-makers. Commonly, consolidated information from these meetings gets listed in the minutes and passed up through the institution.

Comments and data are not the only inputs to consolidation, however. For a manager, information comes from many sources including directly from staff or clients, formal reports, her own experiences, his training, and experiences from documents such as case studies of other institutions. All this gets put into the mix and consolidated in a way that can make a manager recognize the need for additional review and analysis of the data with the objective of finding a way to respond to the information.

Some experiences with information consolidation:

Consolidation is where much of the informal information is simply lost. One cashier noted: "It is true that very little goes up to management, partly because we have infrequent meetings." Front line staff is not usually trained to solicit comments or to track them, and they are not given an adequate opportunity to bring comments to management so they can be addressed. This is a critical part of the feedback loop, but it is commonly lost.

Two issues were very clear in visiting these institutions: The need for vertically integrated meetings, and the need for a focal point for customer information.

Focal Points

Focal points can be an important asset to an institution in terms of consolidating customer information. Where there was no focal point for information (formal or informal) the information was either not collected, or it simply went nowhere. Externally conducted research reports would land on a desk and not move forward. Field generated information did not get to a decision-maker. It was clear that when someone in the institution (who has capacity, some time, and the ear of management) was responsible for data consolidation (and often analysis and reporting) much more happened with the data and the institution was significantly better able to

[5] Teresa Dickinson, Ian Saunders and Doug Shaw. Why use data for decision-making? *The Quality Magazine*, **6**(5), October 1997, pp 78-80.

[6] During the institutional visits one senior manager noted that he believed that if an idea sounded good even if it was only from one person, this could justify the development of a new product. He argued that it was likely that others would want the product also and this would make the development costs worthwhile. This could certainly be true, however, it is always necessary to consider such ideas as concepts and then if deemed reasonable, to move them forward on the product development process prototype development and then testing, and on to pilot testing if the prototype warrants advancement. These help an institution minimize its investment in products that are unlikely to succeed.

utilize client data. In one organisation, this focal point was considered so important that he/she was brought to board meetings to present findings that resulted in significant product alterations. In another institution with no focal point, plans for formal information generation were ambiguous, formal information gathered already sat on shelves gathering dust, other already collected information could not even be found, and no progress was evident on customer issues other than those that were glaringly obvious.

As noted above, many of these institutions already have potential client information focal points in several areas: a development department, training department, research department, and (planned) marketing department. The point is to have someone whose job description includes being focused on gathering and consolidating the customer information that is collected. Once consolidated, analysis becomes possible, and this person can push issues through the institution. The focal point can act almost as a customer representative within the institution, ensuring that issues of customer concern move through the feedback loop towards decision-making, and then to a response to clients.

The other issue that stood out as critical in getting information consolidated and moving up the institutional hierarchy are **vertical staff and management meetings**. At each level there is consolidation (for example, one field officer consolidating the information of groups of clients; one area manager consolidating the information of a group of field officers). Often the more vertically integrated the meeting is, the more it facilitates the feedback loop progress because with broader levels of knowledge it is easier to discuss the likely issues. Additionally, one is able to gauge the manager's interest, and help move the concept further. One institution noted that they have weekly divisional meetings. These are considered of top importance because in these meetings staff integrate vertically. Certainly in suggesting vertically integrated meetings we are not proposing a greater volume of meetings, just meetings that are more effective.

Vertical Staff and Management Meetings

One institution conducts multi-level meetings on a quarterly basis and these are noted to be effective in that institution. Another conducts institutional meetings on a quarterly or semi-annual basis to give the whole institution an opportunity to discuss (and consolidate) issues.

Two institutions have meetings in the field that are run by the chief executives for clients. One of them includes branch managers and field officers in these meetings so all levels can immediately discuss issues and answer questions. The other intentionally excludes field officers from these meetings so that clients (and local officials who are also invited) can be free to discuss sensitive field officer issues. Both have found their methods effective in terms of their institutional objectives for the meetings.

One senior person noted that MFIs must be careful not to collect data that they cannot use, either because of institutional disinterest, lack of time, or limited capacity. They suggested that an institution should not collect information if you cannot use it. Collecting such information simply wastes staff time and disheartens them with the recognition that they have worked for nothing. This MFI (like many others) has collected information that was unusable because of systems and capacity. This brought morale down upon recognition that the institution could not manage the data, and the collection quickly stopped. If the MFI cannot consolidate the information, either do not collect it or improve systems so that it can be collected and consolidated efficiently.

Be careful not to collect data you cannot use

In one institution, staff collects extensive client data that is input into a database structure. This database has limited space and it fills up faster and faster as the institution continues to grow. Many person-hours go into collecting the data for this system, and then inputting it into the database. Then, because of the software limitations, the chronological data must be

Systems may need very large capacity to hold client data

separated over time (now just a few months) into new unlinked files. It is thus difficult to mine the data from what is input. Additionally, some reports need to be compiled manually even though the data has been input into the system because the system is unable to output the data in a form that matches the reporting requirement. The system capacity is not there to effectively use the data.

So should they stop collecting the data? If they believe that the data has value to them, then they should continue collecting it. The system should be adjusted or replaced so that it improves the efficiency of data consolidation, assuming that the information is worth the cost of the replacement or upgrade. Or, maybe the data requirements simply need to be refined.

Clients and Staff need to know that management will listen to and consider their issues

In many cases, front line staff noted that information they get informally from clients will go nowhere because there is no forum for it, or because management is not interested (one noted, "I cannot tell them things they have not asked for"). One strategy used by frontline staff to avert problems with clients when they know there will be no consolidation is that they offer to bring it to management with no intention of really conveying the matter, and then hope that the client will forget. This undermines the credibility of the front line staff, and gets clients to think the institution does not care about their comments. The negative impact is serious for those institutions with front line staff who practice this strategy.

Information consolidation is one of the most common problem areas for institutions. The data is coming but, especially with informal data, they generally have not devised means to assist front line staff to collect and consolidate it.

Some recommendations and comments on Information Consolidation:

- ✓ "Customer satisfaction issues" should be a <u>regular agenda item</u> for each of branch and branch managers' meeting.
- ✓ Have Field Officers maintain an "<u>inventory list</u>" of issues from customers separate from other documentation and for discussion under the monthly agenda item.
- ✓ Selection of an ombudsman / <u>client data focal point</u> within the institution.
- ✓ <u>Reassess data management software</u> to confirm the ability to effectively and efficiently mine data from the system.
- ✓ Regular <u>horizontal and vertical meetings</u> should be held between Customers, Field Officers, Branch Managers, senior management, and the board about customer care and responsiveness issues.
- ✓ Only collect data that the institution <u>will use</u>.
- ✓ *<u>Do not lie to clients</u>* in telling them that issues will be passed to management when there is no intention to do so.

4.3 DATA ANALYSIS

Now that data has been consolidated, it needs analysis to help determine what, if anything, should be done with it. At least two levels of analysis are necessary. The first is customer analysis, and the second is institutional analysis.

Customer analysis: All significant matters *must* be analysed regarding their potential impact on customers. The source data for this is likely to have come directly from consolidated information generation, or may require additional formal research. The information must be clearly assessed in terms of the needs of clients and possible solutions that respond to those needs. It must also be recognized that just because clients want something it is not necessarily appropriate for them or the institution to provide it.

Institutional analysis: Almost every decision has an impact on the institution in some way. The analysis step is for assessing the potential significance of that impact. Analysis must always include an assessment of the impact of any issue in terms of

- ✓ **cash flow**,
- ✓ **profitability**, and
- ✓ **institutional capacity**.

This is also a key step in deciding if information must move higher along the institution's chain of command in order for a decision to be made. Most decisions can (or at least should) be made by those who are interacting most directly with clients (given reasonable training and policy guidance). Thus, at this point the front line staff may deem, after consideration of their authority levels, that they can address the issue without moving the matter higher because it has a minor impact on the institution. They may also deem that it needs to go higher. As the issue goes further into the institutional hierarchy, analysis is done at each step. This is part of the filtering process that each institution uses and defines by its level of decentralization.

Any expected financial impact requires financial analysis.

With any issue deemed significant to the institution, the analysis step may include analysis by the finance department (anything that has a significant impact on cash flow or profitability MUST be analysed by the finance department). Operations, audit, research, marketing, or training may also be involved in some level of analysis if the issue has an impact on their area.

Current experiences with client data analysis:

In one institution, many clients had been demanding a grace period on their loans, noting that they could not generate a return on the loan within one week.[7] This issue rose through the hierarchy via regular staff and management meetings, and a decision was made to study the matter. A client satisfaction survey was conducted ("more than a year ago"). The data strongly indicated that a change in the grace period policy was very important to clients and that clients also wanted a change in the loan levels offered by the institution as well as the elimination of fees for passbooks. Management changed these latter two based on the results of the research, but continued to reject a grace period.

A look at the Feedback Loop phases with respect to the base loan change, we can see that the data was collected, consolidated and analysed. However, the analysis was strictly related to client needs with some financial assumptions. A thorough recommendation report was not developed, but a decision was made and the product was altered with very little documentation or explanation.

Within a couple of months, it became clear to the institution that management should have analysed the impact of the change on cash flow more thoroughly. This is because when a tranche of donor money failed to arrive on time (do donor tranches ever really arrive on time?), the institution was pushed into a liquidity crisis. This has made the institution extremely reluctant to make new decisions without extensive research.[8]

This demonstrates how important the analysis step is to the institution, yet unfortunately there were several examples of weak analysis provided during the visits. Note also the box in a later section of this document called "You asked for it, you've got it." As financial institution managers, the times when we decide on something without analysis, and especially financial analysis, can create some of the most difficult managerial experiences. Yet unfortunately, weak analysis remains rather common.

[7] This seemed especially true of manufacturers and local brewmiesters in particular. It seemed that they needed time for their liquid refreshment to obtain just the perfect level of flavour, and that the time to the first tasting was longer than the period from loan disbursement to the due date of the first payment.

[8] This institution could have also saved itself some grief if it had followed a proper pilot testing process.

Another institution has a very detailed and focused analysis process that is at once participatory and thorough. They use a four-step process: first, field staff analyse the research data, then branch managers analyse it. Next, operations and finance managers analyse the data in particular detail, and finally management draws conclusions for the analysis. One of the other institutions followed a similar path. Yet another offered that generally there is no financial assessment made by them before implementation of most decisions.

A supervisor from one institution noted, "any decision that involved cash had be conveyed to the head office for their analysis."

One MFI noted that it often must convince its board of directors through use of the analysis results for even relatively straightforward decisions. This process can take a very long time and certainly can hinder progress. In this institution, and others, it is deemed most important to generate full "buy-in" from staff, management, and the board before a final decision is made. One of these has found that it can speed up the process by having board members approve resolutions one-by-one outside regular meetings.[9]

One Manager's Analysis Factors

In analysing issues from data, an operations manager from one of the MFIs said that he analyses based on four general factors.

1. "Service structure" – Does the product or policy fit the institution's policy, strategic plan, and capacity?
2. "Confirmation of information" – Is the basis of the problem correct?
3. "Cost/benefit analysis" – Is it worth the effort to make this issue become a reality?
4. "Level of controls" – If we make this go forward, can it have strong enough controls to protect the institution?

With these questions answered satisfactorily, the manager can then move the issue forward, or decide himself.

Some suggestions and comments on data analysis:

- ✓ Senior managers should work with staff to <u>determine filters[10] for the analysis of the data</u> and determine significance. This helps staff to understand what they can make decisions about, versus what they need to pass on to the next level.
- ✓ <u>Train management and field staff</u> in the Feedback Loop process with a strong focus on how a clear feedback action process will make their work easier and more effective (at least over the medium term).
- ✓ Structured analysis by a <u>focal person</u> should provide a foundation for use in decision-making
- ✓ <u>Financial analysis</u> must be conducted for any decision with a cash flow, profitability, or capacity impact.
- ✓ Always <u>assess the impact</u> of a decision on both the clients (and non-clients) and the institution.

4.4 REPORTING:

The reporting phase has at least four important roles:

[9] Institutions have boards that take vastly different approaches to their participation in management decision making. In one, the board must approve any alteration to the product structure or delivery mechanism. Others are sensitive about any financial matters, and they require their approval for any adjustment to the price structure of the products. Still others refrain from such decisions but do want involvement in branch location decisions. These differences appear to result from a combination of the strength of the chairperson, the confidence the board has in its management team and especially the senior manager, and the methodology the institution follows.

[10] Filters" are the parameters that guide an individual staff member's decision-making authority. Among the most common filters in use in microfinance are loan approval limits whereby different staff members have different signing authorities. If one's signing limit is R5,000 and the loan is for R6,500, the staff member knows that the loan must be approved at a higher level. Such "filters" help operationalise the level of centralisation or decentralisation in an institution.

- It formalizes information for the move to the next institutional level
- It helps management and staff in their thinking process to ensure clarity of the issues
- It acts as a "decision trail" for understanding why a significant decision was made
- It provides an easy mechanism to inform others of the decision, because this step documents the thought process and justification for the decision to help others understand.

When the issue moves on to the next phase of the Feedback Loop it should have been well thought out in such a way that decision-making is facilitated, and the need to go back through the loop is minimized.

There are four areas that should be addressed for each issue requiring decision-making. Remember; the reporting phase is the last step before decision-making and therefore must fully inform the decision-maker. Thus, a reporting format has been developed to assist in this process. Consistently using the "format" will greatly facilitate the decision-making process in the institution. The format is as follows:

1. **A Statement of the Issue:** This statement identifies the source of the information (to show its significance), what the issue is (a school fees savings account), and why it is important (it is good for all parties). It gives the proposer a chance to explain what the issue is and why it is important enough to be considered for a management decision. For example:

   > "Based on PRA and FGD research conducted at all the branches, customers are overwhelmingly asking for a school fees savings account. Because there appears to be so much demand, it is believed that there could be significant benefits from such a product to both the institution and the clients."

2. **The Recommendation:** This section details the potential solution. It should be directly related to the issue, and should satisfy the needs of all parties. For example:

   > "We should test a school fees savings account that acts like a fixed deposit account with the ability to deposit at will but not withdraw funds until school fees are due (i.e., the maturity date). Rather than paying conventional interest on the account there would be a significant completion bonus that would incentivise complete savings. The accounts department will create a new set of related accounts to manage and track the product. Where possible the school fees will be paid directly to the school on behalf of the client to further save them the need to wait in line (and reducing the line in our lobby at school fees time)."

   The recommendation defines the product (in this case) and describes how it should work (at least in terms of the front office). Back office details are often addressed after the decision is made unless these are significant in terms of costs or capacity. In this case there are confirmed additional account types available on the MIS system, as well as the ability to manage specialty incentive interest. The new account would create little additional work for the department.

3. **Comments on the Impact of the Recommendation:** This sections discusses the analysis of the change on the institution and clients so that the potential benefits and problems are clear. Summarized information from the analysis stage would go here. This will include how the *clients will benefit:*

   > "It will facilitate their saving for school fees and reduce their stress around that time."

   and, *what problems they might encounter:*

   > "They might not be able to save regularly thus leaving them short for paying the school fees, and because payments were not complete, they would not earn interest on what they did save."

   The assessment of the impact on the institution is also critical. This should include at least a *cash flow assessment:*

> "The finance department has completed the projection models and has shown that the cash generated can be invested in treasury bills during over the short period"

and *profitability:*

> "The T-Bill investments should provide an average return of 8% while the total bonus cost should be limited to about 2% of total deposits (because those who do not complete the savings do not get the bonus), while operations costs will be limited to 2%. This combination should provide a net return to the MFI of 4% on these deposits."

Finally, *capacity* must also be addressed:

> "A combined assessment by operations and finance management showed that even given growth projections of current products, it is expected that we could open 1,000 of these accounts without the need for additional unplanned staff. This assessment also demonstrates that the computer systems can easily add another account type and that the institution has more than enough staffing and systems capacity for this new account."

This section might also include a note on any *key assumptions* that were used in this assessment:

> "It was assumed that the new MIS system will be installed and fully tested before the test of this product begins, and that interest rates remain relatively constant through the development and testing period."

4. **Implementation Plan:** This section should outline the next steps for the product. On significant new or altered products, processes, or policies, it is likely that the next step would be prototype testing and then pilot testing.

> "This product will follow the pilot testing process outline in the ***MicroSave*** document "*It Can Work – A Toolkit for Planning, Conducting, and Monitoring Pilot-Tests for MFIs – Savings Products.*"

It is not intended that the formal report should be a long, droning research paper, but rather it should be kept brief and focused, like a newspaper article, and the writer should strive to keep it as close to one page as possible. It **should never** be over two pages. Additionally, in many cases a formal written report may not even be necessary. With *easy decisions* on *limited impact* issues, it may be sufficient simply to make an argument to management that includes the four points.

Current experiences with reporting client data

All institutions were all reporting information, but none in the detailed manner set out in this section. Frequently, managers and others noted that most reporting was done primarily through meeting minutes. People did not come to meetings with a formal recommendation or a formal justification for the recommendation. They simply "bring up items in meetings but no formal format is followed," noted one branch manager.

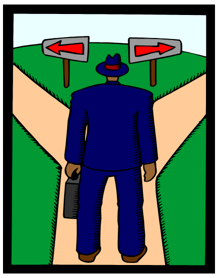
The exceptions to this were formal reports, though even then, in at least two institutions where formal reports were generated, there were no meetings to discuss them. These reports came with recommendations but did not include the required level of institutional and client analysis, nor did they provide the draft an implementation plan.

Formal reporting on recommendations was very limited in the institutions visited. In some cases this clearly hindered decision-making because the details of the analysis were not present (though we have already seen that such details were not considered necessary in some institutions). Thus, staff were sent back to obtain additional information, or do additional analysis. This delays decision-making, while other decisions, made without the benefit of documented analysis, where perhaps premature or unwise.

Some suggestions and comments on reporting on client data:

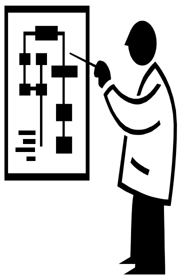
- ✓ Issues relating to customer product or service improvement should be presented in a one page formal report format (description of the issue; comments on the impact of the issue on clients and the institution; a recommendation for addressing the issue; and a brief draft of an implementation plan.)
- ✓ For less significant issues that do not require a formal report, staff and management should at least consider these steps as they formulate responses to client feedback.

4.5 DECISION-MAKING



All the work to this point has focused on preparing for decision-making. Data has been gathered, consolidated, analysed and put into a reporting format. Theoretically, the information is ready for the decision-making process.

This process may move through several levels of the organization depending on the authority granted to the people at different levels within the institution. Those visited showed a great range of authority granted to field staff. For example, in one institution, field staff were granted so much flexibility that some said it would be good if they had more guidance (i.e., less authority) in the decisions they were making. While in another institution at the other end of the spectrum, field officers had virtually no authority (by virtue of a highly restrictive methodology, as well as heavy management oversight), and the little authority they thought they had would often be undermined when credit decisions were made (reversing the field officers decision) at the head office.



People all along the institutional hierarchy are making some decisions for the institution from field staff, to supervisors to management to the board. Strong companies will allocate differing levels of authority to different levels and often even to different people within a level (those field officer who have two or three years experience with the company may have greater authority on loan authorization, for example). In one institution it was very clear what the authority levels were at each step, and even senior managers were reluctant to make decisions within the realm of other staff ("that's their area of responsibility so they should be pushed to make those decisions").

Rational decision-making based on consolidated and analysed client data represents an important balance. It begs the question: How much data is needed to make a rational decision? This is often difficult for managers. For example, in one highly decentralized institution decisions are made with scant data and analysis. In another, a significant data collection and analysis exercise has been conducted. This has led to new questions that management wants answered, and it was suggested that those will likely lead to further new questions requiring new data collection, analysis, reporting and decision-making.[11] The strategy of the former institution is likely too light on data and analysis, while one wonders if the latter will ever make the necessary decisions to improve their serious product and methodology problems.

Then how does one decide that there is enough data and analysis to make a decision? The answer lies in looking at the decision-making step in a different way. This step is not the end, and the Feedback Loop does not just go around once. The decision that is made in this step is a decision that not only moves the Feedback Loop, but it also moves the product development process. The answer very likely may be: "yes, let us move ahead and further develop the prototype of this concept." Or after the successful prototype research, when the loop comes back around to the decision-making step, the answer might be: "yes, let us move on to the pilot testing phase." In each case, the Feedback Loop continues around within the prototype testing or pilot testing phase providing a deeper, more realistic level of information from which to

How much data and analysis is enough?

[11] This is called a "half-moon" process because the institution just keeps going around and around the first half of the loop without making a decision that will move them towards the implementation phase.

make a decision, while moving the product along (unless one of the decisions is to stop further development of the idea).

So what is the answer? Collect and review just enough data (analysed and reported as above) to make the change seem a reasonable solution to issues for clients and the institution. Once the prototype is developed through this process, move to a prototype test, or when that is done, to a pilot test. Do not just sit on analysed reports, or keep wearing out the "half moon" of the information generation/consolidation/analysis/reporting/decision-making cycle. Also, do not just move from collection to decision-making (the "straight line approach") without the other steps. Recognize the Feedback Loop as a natural feeder to the product development cycle (an institution can do the same with procedures and policies) and use that process to help make the final decision on rollout.

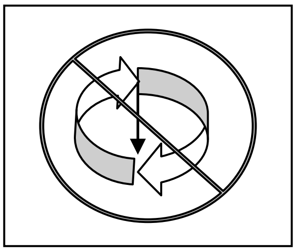
Just because the institution moves a product concept to the product development process does not mean that the issue moves out of the Feedback Loop. On the contrary, each main step of the product development process (concept to prototype development, prototype testing, pilot testing, and rollout) moves within the Feedback Loop.

You asked for it, you've got it!

One institution held a large meeting of its customers. At this meeting customers complained heartily that interest rates on loans were too high. At the meeting, the board and management allowed a vote and decreased interest rates by four percent per month without any financial review or other analysis. The senior manager explained this by saying: "The customers wanted lower interest rates, so we gave them what they wanted."

Over the next few months the minutes of their board meetings reflect a difficulty in covering institutional expenses, and in fact a decrease in both the number and value of loans outstanding. This institution went straight from "Data Collection" to "Decision-Making" without a second thought, and then felt the pain of the "straight line" approach to the Feedback loop.

The "straight-line" approach to the feedback loop can be rather dangerous. When an institution or decision-maker skips over the consolidation, analysis, and reporting steps, the resultant implementation can be devastating. Unfortunately a common example of MFIs straight-lining their decision-making relates to "base" loans or stepped loan approaches. After several years of stagnant methodology-mandated loan levels, the din of client complaints coupled with the management's recognition that at such low loan levels the institution will never break even, the MFI increases its loan levels. This is often done without any assessment of cash flow needs, and predictably two to three months after implementation, the MFI is scrambling for cash. With promises outstanding, and no means to fund them, this becomes a very real crisis for the institution.



Another common issue is the "bullet-point" decision. A decision-maker hears something from one person (or maybe even gets an idea herself in the shower) and decides that this issue will be implemented. This is done without the value of data, analysis, or reporting (and is often implemented without even testing). Implementation of such ideas frequently leads to problems. Thinking about the assumptions that are used in making decisions and asking 'how do we know that?' will make sure that valid information is used. Properly using data to support

decisions ensures that managers are not misled by preconceptions or misconceptions, ensures proper allowance for variations, and helps to provide an historical perspective on the decision. The benefits in terms of improved outcomes and reduced waste will more than pay for the effort.[12]

Some Current Experiences with Decision-Making on Client Data:

The decision-making cultures amongst these institutions were dramatically different, ranging from one extreme to the other in terms of centralisation. However, the balance is skewed towards centralised decision-making, sometimes guided by very rigid methodologies.

Decentralised institutions were generally much better at responding to customer needs and demands. In decentralised institutions, even field staff is given significant latitude in decision-making with the objective that the institution wants its staff to satisfy the needs of their customers.

One MFI noted the serious client response problems of institutions with rigid methodologies and thus aggressively refrains from creating a formal "methodology" other than that of satisfying the customer. With a decentralised system, having so many levels of decision-making creates a problem of branch operational consistency that the institution recognizes. They plan to hire someone to develop manuals covering their operations. The difficulty they note is in having set procedures that continue to allow institutional innovation throughout the organizational chart.

Decentralisation and consistency problems

Another type of institution open to decision-making on significant issues from several levels is the member-owned institution. The manager, board, and members all make fundamental decisions about the institution. Some often praise this direct decision-making by members; however, decision-making in such institutions is often unguided (misguided?) and does not follow the kind of path outlined in the Feedback Loop. Often they combine information collection and decision-making in the same sitting without managing the analysis or reporting steps. The consolidation step is covered by the "group mentality" (yes!! We want lower interest rates!!!). They too frequently follow the "straight-line" approach to decision-making, and this easily leads to serious problems.

Decision-making and member-owned MFIs

Additionally, member-owned institutions can be somewhat schizophrenic in their decision-making because their members are said to form into three "factions." The "savers-only" who want cheap services and interest at the expense of shareholders; the "borrowers" who want low interest rates and fees at a serious expense to shareholders; and the "shareholders-only" who want high returns at the expense of the borrowers and the savers.

Each faction is guided in decision-making by self-serving motivations and objectives and as a critical mass moves from faction to faction there is potential for these differing objectives to cause radical policy changes over time. Although with member-owned institutions there is an oversight unit that is intended to guide the institution in its decision-making, the overseer can only recommend (or recommend against) changes to policies, procedures, or products. They have no control over the final decision and cannot implement "necessary" changes.

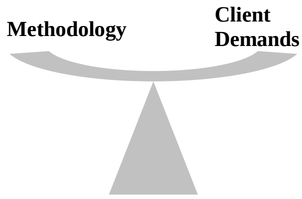
Most of the institutions visited are interested in innovation, but some expend only limited effort. However, others have expended much effort reining in innovation and getting their management and staff to follow the methodology they have adopted. This hinders innovation and entrepreneurialism in the ranks and makes front line staff merely clerks. Yet these are the people who see the clients, and understand best what their clients are saying.

There are certainly some benefits to this approach in terms of efficiency, cost control, and controls in general. But following a rigid model, often originally developed for a different market, is not very responsive to clients' needs and is,

There are some benefits to a rigid structure, but ….

[12] Teresa Dickinson, Ian Saunders and Doug Shaw. Why use data for decision-making? *The Quality Magazine*, **6**(5), October 1997, pp 78-80.

at least in part, likely responsible for the "high" dropout rates experienced today by many MFIs. It is ironic that in many ways MFIs "empower" their clients to demand what they want, yet most of these institutions have but one credit product to offer and hold more tightly to their traditionally based methodology than to the need to respond to the diversity of their clientele.



With such institutions, much of the decision-making is simply based on the rules of the rigid methodology. Demands of clients are explained away by the policies that guide the methodology, rather than being effectively addressed. This process is defended by some institutions as being the only way their business can be effective (i.e., if they change significantly they will not get their loans repaid). Internationally, there is less and less justification for this argument as many institutions are improving overall client satisfaction and profitability with much more flexibility in terms of product development. However, managers often argue that *their* market/clients/staff are different, and need the rigid structure to be "successful".

An immediate impact of this rigidity is that clients are making their needs known to institutions but the institutions are rejecting them in favour of supporting the rigid structures that are not necessarily customer friendly. This makes questionable the effort to generate customer data at all if the results must fit into the rigid structure.

To be fair, some of institutions in this category are beginning to recognise the rigidities of their product(s) and are starting to sincerely look at other options and consider new approaches. However, the effort will require a strong example from the top of these organizations that exemplifies a new entrepreneurial focus within the institution. This spirit and example should not only guide decision-making, but work to assimilate an entrepreneurial spirit among lower level management and staff. Additionally, management will need to be willing to make adjustments to their current structures.

Not all institutions who espouse a participatory approach are genuinely participatory, since some of them severely limit staff authority in decision-making. One institution prides itself on its participatory approach with staff on decision-making. However, several front line staff reflected what one noted in terms of the decision-making process. She said "all decisions [at this institution] must be made from top to bottom. Let us make some decisions." An institution of guided entrepreneurs needs all members to recognize their ability to make some decisions and must understand the parameters to their authority (but they should at least have some authority).

Although boards also have an important role in guiding the major decisions, sometimes their decision-making processes delay the implementation of important changes. One institution has begun providing documentation on policy change recommendations to board members in between meetings so management does not have to wait for meetings to gain board approvals.

In most institutions staff attendance at board meetings is seriously limited and the CEO, in most cases, represents the institution. One institution has such support for their client focus, however, that their client research department manager is invited to make client-issues presentations to its board.

Costs and benefits of more research versus moving ahead with prototype development and testing

One institution is heavily dependent on research and has created a system in which the institution repeatedly moves from the decision-making step back to the information-collection step to re-refine the information before decision-making. It is important to generate sufficient information to make a decision, but it is also important to recognise the benefits of prototype development and testing, and then pilot testing. Unfortunately, as noted above, there is no set point that indicates when there is enough information for decision-making. A manager must look at the costs and benefits to re-collecting client data to refine information, versus the benefits of moving forward with a test. It is likely best to spend a bit more time preparing the information collection, consolidation, and analysis stages the first time, than to return to the start several times.

Some Suggestions and Comments on Decision-Making:

- ✓ Senior managers of membership-based organisations should be clear to their membership that they will follow the Feedback Loop process in addressing needs for decision-making.
- ✓ Reassess the decision-making abilities and authorities at the different institutional levels, especially middle management and implement a serious program of decision-making capacity build-up.
- ✓ Minutes should be kept for meetings where significant decisions are made, clearly identifying the decisions in a manner that makes them stand out, and conveyed to more senior management, so others understand the decisions being made.
- ✓ Over time, decision-making should be more decentralised to allow for rapid responses to customer issues. This will require retraining and the development of flexible guidelines.
- ✓ The staff and lower and middle management need to provide analysed information to the decision-makers (whether they be more senior managers, the board, or the membership).

4.6 DELEGATION

Once the decision is made, *positively* or *negatively*, it is time for action. Designs and plans need to be finalised, communication is required, and implementation must be planned and structured. Who is to do this?

This is determined as part of the decision-making process. But it is not as simple as just telling someone to do “this” or “that,” with the expectation that they will complete the task as you have envisioned it. Delegation is one of the most important steps in the loop because it is the first step that moves information back towards the clients. Often, however, delegation is rather straightforward. The decision-maker simply delegates to someone at the next level below him/her in the appropriate department within the institutional hierarchy.

It is important to recognise that the person to whom the implementation process is delegated is now effectively the “product champion”. This person will be a key to the success of the implementation, and thus should be chosen carefully as someone who has the appropriate skills. The person chosen must be able to successfully communicate to the rest of staff, as well as lead them to a proper implementation of this new or adjusted product, procedure, or policy. Often this will require leading a pilot testing process.

Where the movement from decision-making to delegation is complicated is in the message that is communicated to the person who will actually do the work (with all due respect to the manager who made the decision). What frequently happens is that the manager conveys a terse message on the issue, and the staff member is supposed to implement based on meagre information. It is critical that information is clearly and completely conveyed to the person responsible for implementing. Read the following example of what happened in one institution that made unclear pronouncements:

What was that policy again?

In one institution, there was a decision to charge a fee covering the cost of collection visits for late payments. The message was brief and apparently unclear because within the branches three different mechanisms were developed for charging the fee. In one branch, they charged a set amount for every visit regardless of the actual cost. In another, they charged exactly the cost of the transport. Finally in another, they charged the actual cost plus a premium.

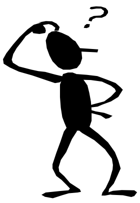
In this case, those to whom the task was delegated interpreted the brief unclear message significantly differently, with each implementation having different implications.

The message must be clear and comprehensive

The message from management must be clear and comprehensive if they wish the policy, procedure, or product to be implemented correctly. There might certainly be some leeway in the implementation, but even then the range of decision-making at lower levels should be very clear. One senior manager noted that "over the years [he has] learned that in conveying any [significant] message to staff, [he] must spell out every little detail, so it is not misinterpreted." This is not to stifle individual initiative or decision-making, but to clearly set the parameters of implementation to maintain internal consistency within the institution.

Some Current Experiences with Delegation:

The importance of delegation is often overlooked. Often the senior manager and decision-maker simply tells the next level manager to make the change. That manager passes the directive down to the next level. Frequently this comes with a terse memo or comment noting the change. This often leads to confusion and misinterpretation.



As an example, one institution announced a percentage salary increase in a very brief memo to staff and provided details of only the across the board percentage increase, not the specifics of how the increase was to be distributed. In each branch, the excited staff calculated their windfall and, according to a regional manager, staff in each branch had calculated the increase differently. This left some of the branch staff rather disappointed.

In another institution, clients were seriously complaining to a credit officer that they wanted individual loans. The credit officer told the branch manager, who then brought the issue to the branch managers' meeting. This branch manager was asked by the group to write up the terms and selection criteria for such a product. When this was presented, the CEO offered approval for its testing, but with no documentation and no formal testing process. Now that the product is being offered in other branches, one branch manager says there is no documentation for these loans and there is no clear distinction between clients who can get an individual loan and those who cannot. "The decision is completely up to the field officer." This delegation to new branches is thus rife with confusion.

Attitude problems?

A senior manager of one institution notes that "the institution has a big problem with internal communications" which leads to serious confusion, misapplied procedures and policies, and inconsistent application. A senior manager of another institution notes that the weakest point in his organisation is "the point between the branch manager and the front line staff." Yet another acknowledged this issue but suggested that rather than this being a problem of delegation, it was the result of an attitude problem on the part of the staff: "They have the information, but they just do not use it." Clearly this says a great deal about the management-staff relationship at this institution and the potential for significant change to benefit clients.

One institution holds "Meet the Chief Executive" meetings with customers on a regular basis. In one such meeting, the clients complained about the low base-loan levels. At the meeting the CEO offered an appeal process and a higher value loan to the attendees (an on-the-spot, "straight-line" decision moving directly from information generation to decision-making).[13] After the meeting the CEO explained the processing of these loans to the manager. The change was not documented, simply delegated orally to the manager. The manager notes that "this causes a problem because new people don't know the rules since they are verbal, and since operations and policies are different at different branches."

The delegation step is critical to the implementation of any decision. Institutions in general must focus on more effective delegation.

Some say the devil is in the details. That is truly the case with delegation. It is so often done carelessly, and leads so frequently to confusion, that one would expect strategic changes to the way delegation is handled. In fact, one institution has completely revised the way they delegate and move towards implementation.

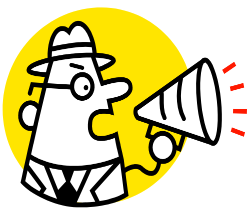
In this institution, when there are major adjustments in the institution, senior management and regional managers meet to develop a dissemination strategy. Once this is done, regional managers meet with the branch managers to explain the process. They may conduct a workshop for these managers depending on the complexity of the issue. Then, by region, they conduct meetings for front line staff. Senior staff also attends these meeting for support and guidance in explaining the new adjustment or product. This institution has found this to be more effective than simply sending a memo. With the memo, they had all the problems mentioned above, and they decided that the investment in management time and effort is worth ensuring that the entire staff clearly understands the new or adjusted product, procedure, or policy.

All levels should develop a dissemination strategy

Some Suggestions and Comments on Delegation:

- ✓ After decision-making for significant issues, management should produce a set of notices for different audiences. The notices would focus on the specifics of the impact of the decision on the particular area, but require a manager from each area to fully understand the change.
- ✓ Provide detailed written procedures plus hold a briefing from management to branch managers about any new product or product adjustment.
- ✓ Management should provide an insert to the procedures manual to include the new or adjusted policies or procedures
- ✓ Structured information on changes from branch managers to the staff should be provided through training in branch meetings and should include a discussion of the issue, as well as role-plays and any other appropriate techniques to ensure understanding on the part of the staff.

4.7 COMMUNICATION



Communication in this case comprises several tasks in the preparation of the institution for implementation. These tasks include training (so staff know what they are delivering and how to deliver it), the marketing plan (so market is well thought through and controlled), and procedural documentation so clients get the same options in different offices (and so the product offered matches the analysis).

Training: Training is a critical step, and again, because this process covers the full realm of all possible feedback, processing will be implemented in varying forms. Some training may be as simple as a few

[13] Note this is a different institution than that mentioned above with the cash flow crisis resulting for an across the board increase in the base loans.

instructions from a supervisor, while some, as with a new product, may require extensive training on systems, customer care, the product, back office operations, marketing, and others. Staff must understand the adjusted or new product, procedure, or policy – what it is, how it works, how it impacts their work and their customers, and how to inform (sell it to) others. No matter the detail of the training, all these points must be clear.

Procedural documentation: The documentation mentioned above in the Delegation phase must be available to staff who are to implement the decision.

Marketing plan: For any significant new or altered product or procedure there will be a need for a marketing plan to address the process of how the product will be conveyed to clients.

Some Current Experiences with Communication and Implementation Preparation:

Again, this is intended to focus on communication in the broadest sense and relates to the process of preparing the institution for implementation after the tasks are delegated.

FAQs and communication strategies for message consistency

In one institution, once the front line staff understands a product or alteration they, with managers, develop a strategy for conveying the information to clients. This includes developing a set of FAQs and communications strategies to keep the message consistent. For some activities, they develop special (distinct) manuals for front office staff and for branch managers because they recognise that the requirements are different for each – field staff needs implementation information, and managers need implementation and supervision guidelines.

Other institutions have a less comprehensive approach to preparing staff for implementation, though in one other institution the management provides a written policy and integrates the change into the overall policy manual. Some institutions use a participatory approach to product development, and most do conduct some training for significant changes, however, this tends to be limited.

Not everything requires a comprehensive approach, but all issues do require clarity. In one instance, an institution implemented a change in authority limits (for approval of loans) in an effort to reduce the administrative burden of management. However, there was no guidance provided by management as to how to manage the new authority levels. The institution took on additional risk (which they had previously deemed too much for their credit staff) without making any effort to educate their staff on management of that risk.

Pilot testing

Some institutions used a pilot testing process, but these processes were rather weak and should follow a more focused process. A good guide for Pilot Testing is the ***MicroSave*** toolkit, "It Can Work – A Toolkit for Planning, Conducting, and Monitoring Pilot-Tests for MFIs – Savings Products," or its counterpart on Loans.

Some Suggestions and Comments on Communications and Implementation Preparation:

- ✓ Branch managers and senior management should hold regular meetings that include a formal agenda item for customer service / satisfaction issues.
- ✓ Include a section on change implementation in the branch manager's training program
- ✓ When data is gathered from customers, especially in a formal manner, management should provide them with a formal communication that tells the customers why the data was collected and the timetable for action. An update message should also be sent when the alteration/new product is in test (where applicable) and the projected process of the test, and these customers should be notified when the product is to be rolled out (or informed that it has been scrapped).
- ✓ To control for reasonable uniformity at the client level, the branch manager or other managers should confirm implementation of new policies or procedures by the field staff.

- ✓ Front line staff should be provided with a set of FAQs with answers to ensure consistent responses to customers.

4.8 IMPLEMENTATION

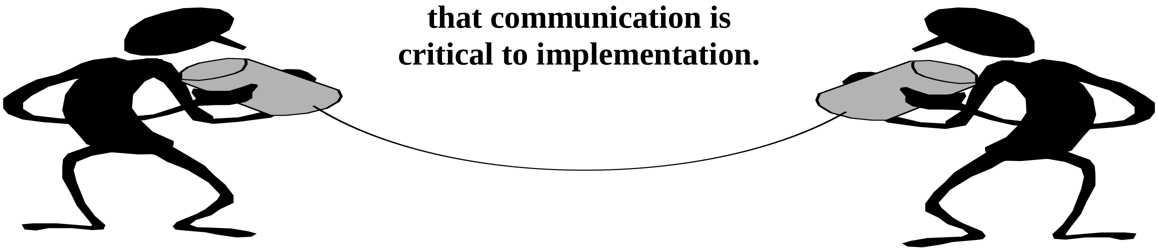
The implementation stage has finally been reached, and by having followed the steps of the feedback loop the institution should have confidence that it is ready for implementation. This implementation may be on a simple issue; or it may be the start of the prototype development or testing, or the pilot test. The process may have taken several months, or several minutes, depending on the issue being addressed.

Implementation is what an institution does

Implementation includes the actual introduction to clients of the new or changed issue. How an institution responds to its clients' needs is made tangible through the implementation stage. For the client, all the rest is what the institution "says." Implementation is what the institution "does," and that is what matters to clients.

Implementation may require a simple response or it may require significant preparation. In addition to the issues addressed above, implementation may also require fixed assets (such as computers, or software), new staff, or re-trained current staff. It is important that in the delegation and communication steps these issues are identified so they can be properly addressed. It is also important that any and all costs are considered in the analysis step to ensure that these expenditures will work for the institution.

It is important to remember that communication is critical to implementation.



The business plan, training, documentation, and where appropriate, the pilot testing protocol should guide this process.

What happens when the decision on client feedback is to not move forward with it? Such information still needs to move forward through the Feedback Loop even if there is no product or procedure to develop. Clients need feedback on their comments. Without it, there is a strong feeling that, as one client noted: "management does not really care what we think." Some also mentioned that they are just being "harassed" when the institution comes around asking them questions, while there is no evident result from their answers. Some institutions rarely even consider letting their clients know the results of questionnaires, Focus Group Discussions, suggestion box submissions, or informal comments.

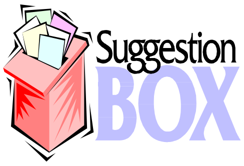
Clients need thoughtful and considered feedback on their comments

In several institutions, suggestion boxes[14] were used to gather client information. In only one institution were responses to the submissions communicated back to clients. Others took the information to management and reviewed them among themselves. One institution even held the keys to the branch suggestion boxes at their head office so that branch management and staff could not manipulate the submissions, only allowing them to be opened when the senior operations manager visited the branch

If client input is truly wanted by the institution, there must be a mechanism for responses to get back to clients.

[14] Suggestion boxes were found in three of the five institutions reviewed. Institutions should be rather careful with suggestion boxes because the information collected in them is not nearly representative, and is not collected in any structured manner so as to provide data that can be readily utilised. Such data always requires additional analysis and confirmation. Such information can act as an initial input into concept development, leading to additional research with clients and on financial impacts. That said, they can often be a source of interesting new ideas, and if an institution has them there should be a response to clients who submit suggestions.

(in some branches this took as long as six months). On these visits the box is opened and it was said that the area manager went through the submissions with the branch manager and staff. Then the submissions were taken away to the head office and never seen again.



In another institution, one of the staff noted: "when we first put out the suggestion boxes, there were so many entries. Now there are hardly any." When asked how the institution responded to the submissions, the staff member said they were read and then filed – the customers had no idea what was happening to the submissions, and so simply stopped using the mechanism.

One institution that does reply to suggestion box submissions aims to have a response within one month of receipt of the batch of submissions.

Management should always respond to clients when information is asked of them. They are interested in what is done with their comments and how they might impact their relationship with the institution. There should be well thought out responses to clients when they express their significant needs. Sometimes staff does inform clients of the reason for the questions, but follow-up is usually weak – yet important to clients.

Some Current Experiences with Implementation:

Transferring risks to clients.

One institution has a (rather self-serving) policy that for group loans over a certain amount, client group leaders must come to the head office of the institution to collect the groups' disbursement. The clients complain that the institution is insured but the group is not, and that this policy puts them at risk. Indeed the institution is simply transferring its risk to its clients.

Credit officers raised these client concerns in their meetings. The issue rose through the institutional hierarchy to top management. Top management explained the rationale for the policy and sent the credit officer back to explain this to clients. The clients then made suggestions about how this could be better addressed in the future. The credit officer listened and noted that he would bring the matter back to management. During our visit he admitted that he had not done anything with the comments and just hopes the clients will forget the issue. This is a rather common response from field staff to customer issues.

"you are not really helping us"

This policy was clearly set without analysing the impact on clients. Such an institutional response leaves clients questioning the focus of the organisation. As a client from another institution noted: "[Your institution] is tending to be more profitable, you are not really helping us" because you do not match client needs. This reflects a common attitude among clients that expresses how they experience the level of "customer friendliness" within some of these institutions.

Another institution used to have a radio show where people could call in and ask questions about the services and other financial matters. This gave the institution a chance to hear issues from clients, but also the opportunity to respond to issues and questions before a potentially larger audience.

Pilot-testing implementation

Pilot testing is an important process in implementing any product and even many procedures. Its processes and evaluation fit nicely within the feedback loop. These institutions generally use an internally developed form of pilot testing. One institution, for example, uses pilot testing extensively with new products and has several pilot tests going at different times. However, because the testing duration is so short, they are effectively testing only the implementation of the product. There certainly is value in testing initial product implementation, but it is not a full pilot test and much product information is lost, in addition to adding a degree of risk to the institution.

This institution tested one new product in two regions. To facilitate management of the tests they developed two three-person monitoring teams (each containing a branch manager, area manager, and research manager or operations manager – note the vertical integration in the team composition). These teams were formed to support the new product and monitor implementation. Institutions who use them report that teams such as these are very effective in identifying problems with any aspect of the initial implementation of the product or procedure.

Implementation monitoring teams

It is easy to see why. When they decide to implement a new or altered policy, procedure, or product they have a structured mechanism for conveying the information to their field staff. All communication about a product, procedure, or policy change is provided on a single Friday (which is their staff meeting day) in all branches. A senior manager goes to the branch to observe and confirm consistency. After the meetings the senior managers have a feedback session to assess communication. This is a relatively new process, and was developed as a result of the frustration of implementing issues and communication to customers that was miscommunicated and inconsistent, causing problems for the institution.

When this institution adjusted its interest rates and added some client benefits (to balance the detriment with a benefit for clients and make implementation more palatable), they produced a glossy colour brochure in vernacular to explain the product and its components, including the new price. Although it had been distributed months before the visit, several clients were able to pull their brochures from their purses and show them when asked if they are used. The few clients seen noted that these brochures were of high value to them. Clearly these are expensive for the institution to produce, but the costs involved and the overall value to the institution needs to be assessed.

Brochures to explain changes

Implementation also must consider the response to clients from the institution on expressed issues. With positive decisions on client issues, MFIs are responsive at least in terms of the clients eventually seeing the new product or adjustment. They could promote the fact that the change was made as a response to clients and in an effort to serve them better, and use this as a marketing tool.

Negative responses to client issues are more difficult to convey. Indeed, with negative responses, MFIs tend to be less responsive. Often "negative" responses to issues from clients are lost on the way around the loop, or field staff is simply given a directive without an explanation of the reasons behind the decision. Such responses result in confused or avoided communication.

Sometimes clients are "participants" in research activities where they take their time to help the institution in its efforts to improve products. But they rarely, if ever, hear anything regarding the results, and when they do hear, it is after a very long time. In one institution, research is conducted but the results never get back to the front line staff or the clients.

Keep clients updated

In order to help clients feel the institutions are using their information, these MFIs should provide periodic updates on the progress of the research information. This will also help clients to see that the MFI is actually doing something for them, and it might help them to wait a bit longer as the MFI moves through the feedback loop.

Some Suggestions and Comments on Implementation:

3 Management should <u>assess the costs and benefits</u> of their response to the feedback of their clients. It is important to follow the loop in providing feedback, however, how intensively an institution chooses to do this is based on a decision they must make after a review of costs.

3 Notices to clients should be in English and <u>vernacular where appropriate</u>

3 Notices should take a <u>positive tone</u> where possible even when negative information is provided

3 Information on any changes implemented relating to customers should be posted in <u>customer congregating areas</u>.

3 Suggestion box submissions should be responded to and posted in a timely manner so customers can see that they are being listened to, and also to explain issues to customers. Note that suggestion boxes can help in providing concepts for further inquiry, and institutions should not simply use them to reiterate rigid policies.

3 Notice boards should be kept up to date**.**

3 A quarterly meeting of branch manager and group executives without credit officers to discuss customer service/satisfaction issues, and convey any changes to procedures, policies, or products might be helpful for clients.

3 The role of the ombudsman/focal point staff member is just as important in communicating back to clients as it is in generating member comments and issues.

4.9 INFORMATION COLLECTION

This leads an institution back to information generation, where clients reassess the new or adjusted product, policy, or procedure and the process continues along the path of the feedback loop.

How do these steps lead to a more opportunity focused institution?

The process of taking client information (formally or informally), digesting it, and using it as an input to institutional decision-making – in fact making decisions purely based on filtered customer inputs (measured against institutional needs) – helps to provide a more opportunity-focused (yet institutionally responsible) process for decision-making and implementation.

The parts of the process are not new. All organisations already follow some parts of this Feedback Loop process. They collect data, or they make in-the-shower decisions about customers needs, or they conduct research. Most even manage to implement changes, sometimes even based on client and institutional needs.

What is new is the way the various parts are put together as a formal structure. The reasoning is simple: for an institution to improve its success in business, it must respond to clients. In order to respond to clients, institutions must understand who the clients are, and what are their needs and desires. The way to understand clients is through collecting information. The Feedback Loop process, if all the phases are addressed, will help an MFI to successfully process client information, use it to make decisions and get the responses back to clients as product, procedure, policy, or even as an explanation for rejection.

In order for this process to function properly, several factors improve its success. These include:

- Entrepreneurial management that wants to know what clients want, and then focuses on satisfying clients as a central means of improving the institution’s business. This attitude often filters through the institution and the Feedback Loop process helps them to focus on ensuring that responses are professionally addressed.
- Good data to start the process. PRA and FGD data can be very helpful, but only if analysed properly. Informal data from clients can be very helpful, but there must be a collection and consolidation of this data. There should also be a debriefing opportunity so that the consolidated information has a chance to move to the next stage.
- Moving consistently through the process. Some organisations go round and round trying to get more and more data before they are willing to make a decision. In organisations where client loan cycles are four months long, clients will not wait three cycles to see a response to their issue. Get the information you need and move on to prototype or pilot testing.
- For an institution that is already opportunity-focused, recognising and following the steps of the Feedback Loop will help them to make better decisions for the benefit of their clients and the institution.
- Management interest and commitment to following the process in all significant decisions.

Filters and their importance to the Feedback Loop and efficiency

As noted above, not every decision needs to be made by the board. The board in fact, does not make most decisions. In a well-run organisation with sufficient controls and well-trained staff, the front line staff, using guidance from institutional policies or procedures, makes most customer decisions. More complex decisions are made at higher and higher levels of the institution based on authority levels (often approved by the board). Thus, at each step in the institutional hierarchy there are filtering mechanisms that inform the staff member what they can and cannot decide on. This makes responses to customers much more efficient, though even when information is filtered, the decision-maker should still be considering the steps of the feedback loop.

5. SUMMARY

Of the institutions visited, each phase had at least one institution that exhibited strength in its use, but none of the institutions were strong in all eight phases. This section will highlight the major strengths and weaknesses of the institutions we visited, and present key lessons learned.

5.1 WEAKNESSES OF CURRENT PROCESSES

Interestingly, there were several rather common weaknesses that were not necessarily seen in all institutions, but were seen in more than one. These include:

- ✓ Information consolidation, especially with regards to informal information generated through front line staff. This results in limited timely information getting to management. For both formal and informal information some institutions have no focal point for client information. This severely restricts the utilisation of client information.
- ✓ Analysis of consolidated (and even unconsolidated) data is often weak. Some of the institutions have been seriously impacted by a lack of analysis, and especially financial analysis. Some institutions do analyse information but it might only be one side of the necessary analysis – clients or the institution, but not both. Institutions must analyse every significant issue from the perspective of both the institution and the client.
- ✓ Reporting has been substantially verbal. This is fine for less complex issues, although the four points should always be considered (what is the issue and why is it important, what is recommended to address the issue, what will be the impact of the recommendation, and how will the recommendation be implemented). Often the only formal recording of significant issues for decision-making is what ends up in meeting minutes.
- ✓ Decision-making abilities are widely variant in the institutions. These abilities ranged from a highly decentralised institution where most significant client decisions are made in the field by front line staff, to those where field staff complains that they have no decision-making authority and everything is decided by the institution’s lending methodology or senior manager. Some managers described their organisations as highly participatory (although in at least one, their front line staff would disagree) bringing in the thoughts and ideas of all staff before making decisions. Too frequently there were cases of “straight-line” decision-making where issues essentially moved from information collection to decision-making without adequate consolidation, analysis, or reporting.
- ✓ Delegation tends towards weakness with “downward” communication problems reported in most of the institutions. One institution was so dissatisfied with this communication in their own institution that they have completely overhauled their method of conveying information to staff post-decision, at significant expense of management time.
- ✓ Communication includes the preparation of staff for implementation, and this has been fraught with difficulties. The commonality of this problem might be that management *assumes* an understanding by staff when such understanding is not there and training is necessary.
- ✓ Implementation in terms of communication to clients has been weak in most institutions, especially when the communication is negative to clients. This is often simply neglected.

- ✓ The use of pilot testing also tends to be weak with most institutions simply rolling out without adequate tests. Most product, procedure, or policy alterations have been implemented *en masse*, sometimes with disastrous results.

Inconsistent approaches to client feedback

In general, institutions have not taken a consistent approach to addressing client feedback. Most have not followed any formal process, and most have clients and staff that experience dissatisfaction with their current feedback processes. The institutions themselves recognise that many of their clients have been unsatisfied with their institution, its products, and procedures. Most have begun efforts to improve their situation. Institutional capacity to follow the prescribed loop and adequately respond to clients is strong in two to three of the institutions, but rather weak in two others, primarily because of either management commitment or capacity issues.

5.2 STRENGTHS OF CURRENT PROCESSES:

These institutions also showed some important strengths in terms of utilisation of feedback from clients. Some of these strengths include:

- ➢ Most institutions are already collecting information.
  - o Some are installing new computerised systems to help them manage the data.
  - o Each has sent staff to the ***MicroSave*** Market Research for Microfinance courses and have conducted follow-up exercises to help embed the skills. This training is used in different ways in the different institutions. Some find themselves too busy to use it because of institutional growth. Some have already scheduled research activities into their annual work plans, and others include it in their strategic plans.
  - o Using other tools, one institution holds “Meet the CEO” meetings with clients so that clients can directly express their issues.
  - o One has a system for suggestion box information that has management responding within a month of information collection.
  - o Another holds general meetings for its clients on a bi-monthly basis to inform members and address their issues.
  - o Still another has already developed a detailed client research plan, and another maintains a schedule of external researchers collecting information about client attitudes and preferences.
- ➢ Information consolidation was generally weak, which is certainly a tragedy given all the effort at collecting data. Two institutions, however, have a strong client information focal point within their institution who co-ordinates the collection and analysis of client information. Though this is not necessarily a full time position, it did provide for a dramatic improvement in information consolidation and thus the quality of information moving towards a decision.
- ➢ The analysis step was stronger in the institutions with the information focal point. Institutions that included a strong financial analysis component also ended up with better data for decisions. One institution has a specific four-step process it uses to analyse research data. This process, though time consuming, is said to greatly enhance the quality of information that moves to the decision-making stage.
- ➢ Reporting on formally generated information was generally better than that for informal information. As would be expected, those institutions with information focal points tended to have better reporting, and those reports tended to be better used.
- ➢ Decision-making in one institution was very rapid with staff allocated the ability and responsibility to make decisions on client issues outside the bounds of a rigid methodology. Other institutions take a participatory approach to decision-making. Some are successful with this, especially when there is someone in charge of pushing towards a decision (the focal point).

- Delegation is strong in one institution where different levels of management come together to develop a strategy for delegating and preparing branch managers. This institution tracks the delegation and expends much effort in making sure delegated staff understand the correct message. Another institution is highly decentralised and delegates effectively resulting in a more efficient response to client needs.
- Some institutions have training programs designed to help staff prepare for implementation. One institution makes extensive use of staff on each level to prepare the level below, including front line staff that develop many of the components required for the actual implementation and communication to clients. This institution, as with another of the group, also makes use of pilot testing.
- Implementation in one institution required that a vertically integrated team went to pilot-test areas to oversee implementation and assess the message to and response of clients, as well as the effectiveness of the training of staff. Another institution implements adjustments rapidly, showing clients that their concerns are important to the institution.

In general, institutions that are most successful with regards to client feedback are those that have a determined focus on satisfying customers, a process for generating appropriate inputs to decision-making, and careful participation and oversight of implementation and its inputs. Assumptions of capability are often wrong, so those that train and follow-up are often more effective. Those with a focal point are significantly more effective in client response.

One institution in particular stands out as moving very well around the loop. They work hard to be responsive to clients (although they, too, are constrained by a rigid structure) and to make sure that their products not only respond to client needs, but also help them improve their economic situation. With respect to most of the steps outlined here they are exemplary.

However, regarding their response to institutional needs, they are somewhat less exemplary. In order to manage a Feedback Loop to satisfy customer goals, the institution employs three full time staff, relies much on direct management oversight of the process, and imposes very extensive requirements on front line staff in terms of direct interaction and reporting on individual clients. This effort is very expensive, and is clearly hindering their efforts to achieve sustainability.

Although there are several areas of cost in these processes (and certainly some potential benefits to the institutions) one dramatic example of the cost of a portion of this process is related to field staff efficiency. Currently in the industry, group-based MFI field staff are generally managing between 350 and 450 clients per week. This institution’s field staff are managing about 160 clients per week. Much of this efficiency difference can be attributed to the level of individual interaction with clients in an effort to assess client improvement and help the client manage their loan and its responsibilities.

5.3 KEY LESSONS LEARNED

What makes the Feedback Loop work in improving responses to clients? There are several lessons learned from these institutions. Among the most important include:

1. Institutions that are bound by a rigid methodology are less likely to be effective in responding to clients because they have to protect their methodology, even at the expense of dissatisfied clients.
2. Those institutions with entrepreneurial management (that are able to convey that spirit to their staff) are likely to innovate more effectively based on lessons from clients. This can be reflected in decentralisation, more importantly than the common “participatory” process within a centralised institution. It requires a strong opportunity-focused commitment by the senior managers that is reflected in a staff that is allowed to be entrepreneurial.
3. Those institutions that actually follow a Feedback Loop framework are more likely to consider all issues in decision-making and implementation of client focused innovations.

4. Institutions with a client information focal point do dramatically better at client-focused product and procedure improvements. This does not necessarily mean a full time position, but at least someone designated as the focal point with sufficient time and capacity to co-ordinate and analyse the information and its flows.
5. Quality, capacity, and interest of staff are critical in this process and developing this is a key responsibility of management.
6. Meetings that are vertically integrated by more than two levels dramatically assist in moving issues up the institutional hierarchy.
7. Those institutions that pilot-test, break free of the potential "half moon" cycle of primary client research, consolidation, analysis, reporting, and back to research sooner, and can bring a more effective product to the market with fewer problems, in a more timely, less costly manner.
8. Institutions need to be clear about how much they are willing to "invest" in this process, and monitor the costs. Institutions must balance the need for the level of detail (and thus costs) they put into the feedback loop with the benefit expected.
9. Even with an expensive, detailed, and even exemplary process through the feedback loop, an institution may still have problems with client dropouts. This suggests that possibly the institution is still not adequately responding to its clients.

5.4 HOW THEY MAKE THE LOOP COMPLETE

Each institution is different. Even those with similar rigid methodologies are different in terms of management and staff capacity and commitment to responding to market opportunities identified through their clients. The recommendations above are specifically addressed to fill in gaps within the feedback structure of the institutions visited. They are presented here along with the "Key Lessons Learned" to provide some ideas to others who recognise the need to enhance the Feedback Loop within their institutions.

In assessing one's own Feedback Loop, it is important to take a rational look at how the institution responds to each step and how effectively it is building a strong structure of decision-making and implementation. Managers also need to take a reasoned look at the culture and environment of the institution and its commitment to its customers and its products to assess their corporate openness to innovation and customer feedback. Following the Feedback Loop steps can help institutions to improve the way they respond to customer information and feedback, but if the institution is more committed to its methodology (for example) than to its clients, no simple prescription will fix the problem of customer dissatisfaction.

APPENDIX 1: RULES AND OBJECTIVES FOR RECOMMENDATIONS

In considering recommendations for these institutions there were several rules that were applied. These were intended to keep the recommendations with the realm of the practical. It does no good to make recommendations for an institution that it will not, or cannot, or even should not pursue. Thus the rules for recommendations were:

- ✓ **They need to be cost effective**. The cost of the intervention must relate to the benefits to both customers and the institution that could be derived from the recommendation. It is easy with donor money to create structures that are unsustainable with donor funds. Because all MFIs must (and should) become sustainable, any additional costs must therefore be borne by clients. Thus, the recommendations are generally simple low or no cost adjustments to current structures designed to fill in the gaps.
- ✓ **The institution must have (or plan to have) the capacity to respond to the recommendation**. There is no benefit to recommending activities that the institution cannot complete, or would incur significant expense to acquire. Thus recommendations by institution varied greatly in complexity. With one, just getting them to consider using the Feedback Loop framework as a guide for decision-making was about as much as they could handle at this point. With others, recommendations related to the results they should expect from their externally-sourced client researchers.
- ✓ Recommendations **leverage existing resources wherever possible**. This is an effort to manage capacity and costs.

The recommendations were developed to help these organisations both fill in the gaps in their current efforts to respond to clients, and to help them institutionalise the Feedback Loop. As one can see from above, most institutions were following parts of the Feedback Loop. It became clear that they just needed assistance in identifying where they were relatively weak. Often simply discussing the loop itself made managers recognise their own issues and consider improvements. The institutionalisation of the Feedback Loop into everyday operations will help management ensure adequate processes for addressing client and institutional issues. Especially because these decisions are made throughout the institution (for different degrees of feedback), having a framework that all staff follows will improve decision-making and implementation throughout the institution.